

Registered number 1435835

Akhter Group plc

**Directors' report and consolidated
Financial statements**

For the year ended 30 June 2004



Directors' report and financial statements

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Directors' report

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

Principal activities

The group is an established manufacturer, systems integrator and supplier of PC network and database technology to a broad base of predominantly public sector customers in the UK. The group principally serves the networked PC and workstation market offering customers complete turnkey systems solutions, comprising hardware, software, installation, networking, training and after sales support. The group sells mainly into niche markets in which it can differentiate itself and gain a competitive advantage.

The group also distributes switch mode power supply units.

Business review

The group's consolidated profit and loss account is shown on page 5 and the consolidated balance sheet on page 6.

Future developments

The group is continuing to investigate new products and markets and will be endeavouring to expand its trading activities.

The group's management team is dedicated to maintaining and extending the improvements in customer services, quality and productivity.

Research and development

Research and development is an important part of the group's operations. The directors intend to continue their policy of investment in research and development as an essential aspect of the continuing commitment to product and quality improvements.

Euro

The Euro has had no significant impact on the group's business and operations.

Dividend

No interim dividend (2003: *nil*) was paid during the year. The directors do not recommend the payment of a final dividend for 2004 (2003: *nil*).

Directors and directors' interests

Directors who served during the year are as follows:

HA Mughal – Chief Executive
AG Laffoley – Group Technical Director
AM Tillbrook – Group Contracts Director
MS Awan – Group Finance Director (Resigned 28.5.04)

The beneficial interests in the ordinary share capital of the company of the persons who were directors at the end of the financial year were as follows:

	2004	2003
HA Mughal	3,979,371	3,979,371
AM Tillbrook	30,000	30,000
AG Laffoley	120,000	120,000
MS Awan	210,000	210,000

Directors' Report (continued)

Employee Consultation

The group places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the company. This is achieved through formal and informal meetings.

Disabled Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort will be made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Political and charitable contributions

The group made no political contributions during the year (2003: £nil). Charitable donations amounted to £151,852 (2003: £4,677).

Payment policy

It is the group's policy to negotiate terms with its suppliers and to ensure that they know the terms on which payment will be made when business is agreed. It is the director's policy to abide by such terms. The group does not follow any specified code or standard on payment practice due to the diverse nature of its supplier base.

At 30 June 2004 trade creditors represented approximately 51 days purchases for the group (2003: 62 days).

Auditors

In accordance with section 388 of the Companies Act 1985, a resolution for the re-appointment of Gross Klein as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

Approved by the board of directors and signed on behalf of the board on 21 JAN 05

HA Mughal
Chief Executive



Akhter House
Perry Road
Harlow
Essex
CM18 7PN

Statement of Directors' Responsibilities

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

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Independent auditors' report to the shareholders of Akhter Group plc

We have audited the financial statements of Akhter Group plc on pages 5 to 24 for the year ended 30 June 2004. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 10 and 11.

This report is made solely to the Company and Group's members, as a body, in accordance with Section 235 of the Companies Act 1985 and for no other purpose. Our audit work has been undertaken so that we might state to the Company and Group's members 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 Group and the Company and Group's members as a body, for our audit for, for this report, for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities on page 3 the company's directors are responsible for the preparation of the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

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 in information specified by law regarding directors remuneration and transactions with the Company and other members of the Group 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.

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 disclosure 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 statement, 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.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of its profit of the Group for the year then ended and have been properly prepared in accordance with The Companies Act 1985.



Gross Klein
Chartered Accountants and
Registered Auditors
6 Breams Buildings
London, EC4A 1QL

Date *21st January 2005*

**Consolidated profit and loss account
for the year ended 30 June 2004**

	Note	2004 £000	2004 £000	2003 £000	2003 £000
Turnover of the group including its share of associate's turnover		16,710		17,858	
Share of associate's turnover	10	(489)		(481)	
Group turnover	1-2		16,221		17,377
Cost of Sales			(11,754)		(12,979)
Gross profit			4,467		4,398
Selling and distribution costs			(2,614)		(2,833)
Administrative expenses			(1,470)		(1,186)
Group operating profit	3-7		383		379
Share of operating profit	10		90		65
Operating Profit			473		444
Exceptional items			-		(403)
Exceptional non-operating items of associate			47		71
Profit on ordinary activities before interest			520		112
Interest receivable and similar income Group	4		101		152
			621		264
Interest payable and similar charges					
Group	5	(84)		(177)	
Associate		(53)		(63)	
			(137)		(240)
Profit/loss on ordinary activities before taxation			484		24
Tax (charge)/credit on profit on ordinary activities					
Group	8	(129)		61	
Associate		(4)		10	
			(133)		71
Profit for the financial year accumulate with reserves			351		95

There are no gains or losses other than those recognised in the profit and loss account, which relates to continuing operations.

Consolidated balance sheet
at 30 June 2004

	Note	2004 £000	2003 £000
Fixed assets			
Intangible assets	11	1,797	2,193
Tangible assets	12	3,069	3,203
		<hr/>	<hr/>
Investments	10	4,866 (301)	5,396 (502)
		<hr/>	<hr/>
		4,565	4,894
Current assets			
Stock	13	1,233	2,157
Debtors	14	4,024	2,701
Short-Term investments		160	550
Cash at bank and in hand		73	71
		<hr/>	<hr/>
Creditors: amounts falling due within one year	15	5,490 (2,940)	5,479 (3,318)
		<hr/>	<hr/>
Net current assets		2,550	2,161
		<hr/>	<hr/>
Total assets less current liabilities		7,115	7,055
Creditors: amounts falling due after one year	16	(687)	(862)
Provisions for liabilities and charges	17	(83)	(186)
		<hr/>	<hr/>
Net assets		6,345	6,007
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	18	470	470
Share premium accounts	19	69	69
Revaluation reserve	19	95	95
Other reserves	19	-	-
Profit and loss account	19	5,711	5,373
		<hr/>	<hr/>
Equity shareholders' funds		6,345	6,007
		<hr/>	<hr/>

These financial statements were approved by the board of directors on 21 JAN 05 and were signed on its behalf by:

HA Mughal
Chief Executive



Company balance sheet
at 30 June 2004

	Note	2004 £000	2003 £000
Fixed assets			
Tangible assets	12	715	731
Investments	10	5,434	5,440
		<u>6,149</u>	<u>6,171</u>
Current assets			
Debtors	14	10	72
Cash at bank and in hand		-	-
		<u>10</u>	<u>72</u>
Creditors: amounts falling due within one year	15	<u>(5,381)</u>	<u>(5,496)</u>
Net current liabilities		<u>(5,371)</u>	<u>(5,424)</u>
Total assets less current liabilities		<u>778</u>	<u>747</u>
Provisions for liabilities and charges	17	-	-
Net assets		<u>778</u>	<u>747</u>
Capital and reserves			
Called up share capital	18	470	470
Share premium account	19	69	69
Revaluation reserve	19	95	95
Profit and loss account	19	144	113
Equity shareholders' funds		<u>778</u>	<u>747</u>

These financial statements were approved by the board of directors on 21 JAN 05 and were signed on its behalf by:

HA Mughal
Chief Executive

Consolidated cash flow statement

For the year ended 30 June 2004

	<i>Note</i>	2004 £000	2003 £000
Cash inflow from operating activities	<i>21</i>	731	1,169
Returns on investments and servicing of finance	<i>22</i>	(6)	(56)
Taxation (paid) / received	<i>22</i>	(12)	(95)
Capital expenditure and financial investment	<i>22</i>	(327)	(524)
Acquisitions and disposals		-	-
Equity dividends paid		-	-
		<hr/>	<hr/>
Cash inflow / (outflow) before management of liquid resources and financing		386	494
Financing	<i>22</i>	(170)	(435)
		<hr/>	<hr/>
Increase in cash in the year		<u>216</u>	<u>59</u>
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net debt		£000	£000
		<hr/>	<hr/>
(Decrease)/Increase in cash in the year		216	59
Cash outflow / (inflow) from increase in debt and lease financing		170	435
		<hr/>	<hr/>
Movement in net debt in the year		386	494
Net debt at the start of the year		(1,678)	(2,172)
		<hr/>	<hr/>
Net debt at the end of the year	<i>23</i>	<u>(1,292)</u>	<u>(1,678)</u>

Consolidated statement of total recognised gains and losses
for the year ended 30 June 2004

	2004	2003
	£000	£000
Profit for the financial year		
Group	272	12
Share of associate	79	83
	<hr/>	<hr/>
Total recognised gains relating to the financial year	351	95
	<hr/> <hr/>	<hr/> <hr/>

Note of consolidated historical cost profits and losses
for the year ended 30 June 2004

	2004	2003
	£000	£000
Reported profit on ordinary activities before taxation	484	24
Difference between a historical cost depreciation charge and actual depreciation charge calculated on the revalued amount	-	-
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	484	24
	<hr/> <hr/>	<hr/> <hr/>
Historical cost profit for the year retained after taxation, minority interests and dividends	351	95
	<hr/> <hr/>	<hr/> <hr/>

Consolidated reconciliation of movement in shareholders' funds
For the year ended 30 June 2004

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Profit for the financial year	351	95	31	25
Currency translation differences on foreign currency investments	(13)	(266)	-	-
Dividends	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase/(reduction) to shareholders' funds	338	(171)	31	25
Opening shareholders' funds	6,007	6,178	747	722
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	6,345	6,007	778	747
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards under the historical cost convention modified by the revaluation of certain land and buildings.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings, together with the Group's share of the result and net assets of its associate, made up to 30 June 2004. The results and interest of the associate undertaking are included using the equity method of accounting.

Goodwill

Goodwill arising on the acquisition of subsidiaries or other businesses, represented by the excess of the fair value of the consideration given over the fair value of the separable net assets acquired, is capitalised and amortised over its useful economic life in accordance with Financial Reporting Standard 10. Goodwill is amortised over a period of not more than twenty years.

Company accounts

Under section 23(4) of The Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The amount of the profit for the financial year dealt with in the accounts of the company is £58,802 (2003: £62,664).

Turnover

Turnover represents the invoiced value of goods sold and services provided and is stated net of value added tax. The turnover is attributable to the principal activities of the group which all represent continuing operations. For equipment supplied under rental agreements, turnover is recognised on an accruals basis.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and any exchange differences arising are taken to the profit and loss account.

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

Leases

Rentals under operating leases are charged on a straight line basis over the lease term.

Research and Development expenditure

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

Notes (continued)

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred where appropriate.

Deferred taxation

The accounting policy in respect of deferred tax complies with the requirements of FRS19. Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

Fixed assets and depreciation

Depreciation is provided on all tangible fixed assets except freehold land, to write off the cost, less estimated residual value, of each asset over its expected useful life on a reducing balance basis, except where stated, as follows:

Fixtures, fittings and equipment	15 per cent, per annum
Motor vehicles	25 per cent, per annum
Buildings	2 per cent, per annum on cost or valuation on a straight line basis.
Equipment for rental	On a systematic basis so as to spread profit evenly over the period of the rental agreements.
Computer hardware and software	33.3 per cent, per annum on a cost on a straight-line basis.

Stocks

Stock is valued at the lower of cost, including all relevant overhead expenditure and net realisable value.

Pensions

The group continues to operate an occupational pension scheme for HA Mughal. The arrangements for HA Mughal are an approved defined contribution scheme (in which his wife is a member) and a funded unapproved defined contribution scheme.

The Group also operates a Group Personal Pension Plan for certain employees and directors, into which it pays contributions. The pension cost changes represent contributions payable by the group.

Notes (continued)

2 Segmental analysis

Turnover is all attributable to the principal activities of the group and arises solely from the UK.

The distribution of external sales by geographic region is as follows:

	2004 £000	2003 £000
Middle East and Asia	710	364
United Kingdom	15,511	16,900
Africa	-	113
	<hr/>	<hr/>
Total	16,221	17,377
	<hr/>	<hr/>

The directors believe that the group has only one business segment and accordingly no further segmental analysis is provided.

3 Operating profit

	2004 £000	2003 £000
<i>Operating profit is stated after charging/(crediting)</i>		
Depreciation and other amounts written off tangible fixed assets	164	183
Loss on disposal of fixed assets	6	12
Research and development expenditure	84	44
Auditors' remuneration:		
Audit	21	18
Operating lease – land and buildings	12	12
Pension Costs	213	53
Amortisation of goodwill	394	394

The exceptional item of £1,191,000 shown in 2003 has now been reclassified to cost of sales as it relates to losses incurred on foreign exchange transactions (2004 - £550,000).

4 Interest receivable and similar income

	2004 £000	2003 £000
Bank interest	22	30
Loan note interest	23	31
Other interest receivable	56	91
	<hr/>	<hr/>
	101	152
	<hr/>	<hr/>

Notes (continued)

5 Interest payable and similar charges	2004	2003
	£000	£000
On bank loans and overdrafts	81	90
Other interest payable	3	87
Interest on loan from pension fund	-	-
	<hr/>	<hr/>
	84	177
	<hr/> <hr/>	<hr/> <hr/>

6 Staff numbers and costs

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

	Number of Employees	
	2004	2003
Administration and technical	79	73
Selling and distribution	53	59
	<hr/>	<hr/>
	132	132
	<hr/> <hr/>	<hr/> <hr/>

The aggregate payroll costs of these persons were as follows:

	2004	2003
	£000	£000
Wages and salaries	2,019	2,235
Social security costs	219	208
Other pension costs	213	53
	<hr/>	<hr/>
	2,451	2,496
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

7 Directors' Emoluments

The emoluments of the directors is as follows:

	2004		2003	
	Directors	Highest Paid	Director	Highest Paid
	£000	Director	£000	Director
		£000		£000
Emoluments:				
Salary	273	115	324	112
Benefits in kind	32	32	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total emoluments	305	147	324	112
Pension contributions	185	173	25	11
	<hr/>	<hr/>	<hr/>	<hr/>
	490	320	349	123
	<hr/>	<hr/>	<hr/>	<hr/>

During the year ended 30th June 2004 H A Mughal was the highest paid director.

8 Taxation

a) Analysis of charge in year for group

	2004	2003
	£000	£000
UK corporation tax at 30% (2003: 19%) on the profit on ordinary activities	(112)	(12)
Adjustments relating to an earlier year	-	77
	<hr/>	<hr/>
Deferred tax	(112)	65
	(17)	(4)
	<hr/>	<hr/>
	(129)	61
	<hr/>	<hr/>

b) Factors affecting tax charge in year for group

	2004
	£000
Profit on ordinary activities	484
	<hr/>

Notes (continued)

Profit on ordinary activities multiplied by rate of corporation tax in the UK of 30%	145
Effects of:	
Expenses not deductible for tax purposes - mainly goodwill amortisation	27
Capital Allowances in excess of depreciation	(32)
Utilisation of tax losses	(28)
	<hr/>
Current tax charge for the year	112
	<hr/> <hr/>

9 Equity dividends

	2004 £000	2003 £000
Interim dividend paid	-	-
	<hr/> <hr/>	<hr/> <hr/>

10 Fixed asset investments

Group	Investment in Netsol £000	Investment In associate £000	Loan notes £000	Secured loan £000	Total £000
<i>Cost</i>					
At beginning of year	-	(1,658)	333	823	(502)
Investment addition	127	-	-	-	127
Group share of post tax profits	-	80	-	-	80
Loan advanced	-	-	-	250	250
Loan repaid	-	-	(165)	(91)	(256)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	127	(1,578)	168	982	(301)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Provisions					
At beginning and end of year	-	-	-	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value					
At 30 June 2004	127	(1,578)	168	982	(301)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 30 June 2003	-	(1,658)	333	823	(502)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The investment in associate consists of a 26.8% holding of ordinary shares of 1p each in Ultima Networks PLC, a company listed on the London Stock Exchange. Ultima Networks PLC is a group engaged in the design, manufacture, marketing and distribution of networking and computer related products, the development of professional software and the provision of technical networking services.

Notes (continued)

The results of Ultima Networks PLC included in these consolidated financial statements are based on the audited financial statements of Ultima Networks PLC for the year ended 31 December 2003 and the unaudited interim results for the six months to 30 June 2004, as contained in the Ultima Network PLC's Interim Report dated August 2004.

At 30 June 2004 the market value of the investment in Ultima Networks PLC was approximately £1,013,765.

The investment in Netsol Connect (Private) Limited of a 49.9% holding was made during the year by Akhter Computers Limited and the directors have decided that it would serve no useful purpose and would be misleading to incorporate the results in the company's financial statements.

10 Fixed asset investments (continued)

The amounts required to be disclosed under Financial Reporting Standard 9 in respect of Ultima Networks PLC are as follows:

		2004 £000	2003 £000
Profit and loss account			
Share of turnover		489	481
Share of profit/(loss) before tax		83	74
Share of taxation		4	9
Share of profit/(loss) after taxation		90	65
Balance sheet			
Share of assets			
Share of fixed assets		813	907
Share of current assets		289	236
Share of liabilities			
Share of liabilities due within one year		(537)	(452)
Share of liabilities due after one year		(707)	(940)
		<u>=====</u>	<u>=====</u>
Company	Shares in group undertakings	Participating Interest	Total
Cost	£000	£000	£000
At beginning of year	1,794	3,940	5,734
Additions	-	250	250
Repaid	-	(256)	(256)
	<u>1,794</u>	<u>3,934</u>	<u>5,728</u>
		<u>=====</u>	<u>=====</u>
Provisions			
At beginning and end of year	294	-	294
	<u>294</u>	<u>-</u>	<u>294</u>
		<u>=====</u>	<u>=====</u>
Net book value			
At 30 June 2004	<u>1,500</u>	<u>3,934</u>	<u>5,434</u>
		<u>=====</u>	<u>=====</u>
At 30 June 2003	<u>1,500</u>	<u>3,940</u>	<u>5,440</u>
		<u>=====</u>	<u>=====</u>

Notes (continued)

The principal subsidiary undertakings, all of which are wholly owned and have an accounting year end of 30 June 2004 are as follows:

Akhter Computers Limited (issued share capital £1,000,000 of £1 each) – established manufacturer, system integrator and supplier of PC networking and database technology. Registered in England and Wales.

Microsales Distribution Limited (issued share capital £400,000 of £1 each) – supply of power suppliers and computer peripheral components and the final assembly of power supply products for the electronic manufacturing sector. Registered in England and Wales.

Micrology Limited (issued share capital £332,500 of £1 each) – design, assembly and distribution specialists of generation products, high performance multi media and CD-ROM products for commercial users and distributors. Registered in England and Wales.

Akhter Computers Pakistan (Private) Ltd (issued share capital PKR 2,950,000 of 100 Rupees each) – established manufacturer, system integrator and supplier of PC network and database technology. Registered in Pakistan.

11 Intangible fixed assets - goodwill

Group	£000
<i>Cost</i>	
At beginning of year	4,005
	<hr/>
At end of year	4,005
	<hr/> <hr/>
Amortisation	
At beginning of year	1,812
Charge for the year	396
	<hr/>
At end of year	2,208
	<hr/> <hr/>
Net book value	
At 30 June 2004	1,797
	<hr/> <hr/>
At 30 June 2003	2,193
	<hr/> <hr/>

The goodwill arose on the acquisition of shares in Ultima Networks PLC in October 1998 and July 1999 and Akhter Computers Pakistan (Private) Ltd in July 2001. The useful economic life adopted for this goodwill is 10 and 20 years respectively.

Notes (continued)

12 Tangible fixed assets

	Fixtures And Fittings	Computer Equipment	Motor Vehicles	Freehold Land & Buildings	Total
	£000	£000	£000	£000	£000
Group					
<i>Cost or valuation</i>					
At beginning of year	2,114	402	92	3,104	5,712
Additions	3	18	25	-	46
Transfers	-	-	-	-	-
Exchange differences	-	-	-	-	-
Disposals	-	-	(54)	-	(54)
At end of year	2,117	420	63	3,104	5,704
<i>Depreciation</i>					
At beginning of year	1,618	377	69	445	2,509
Charge for year	74	25	9	56	164
Transfers	-	-	-	-	-
Exchange differences	-	-	-	-	-
Disposals	-	-	(38)	-	(38)
At end of year	1,692	402	40	501	2,635
<i>Net book value</i>					
At 30 June 2004	425	18	23	2,603	3,069
At 30 June 2003	496	25	23	2,659	3,203
	Fixtures And fittings	Freehold Land and Buildings	Total		
	£000	£000	£000		
Company					
<i>Cost</i>					
At beginning and end of year	49	850	899		
<i>Depreciation</i>					
At beginning of year	46	122	168		
Charge for year	1	15	16		
At end of year	47	137	184		
<i>Net book value</i>					
At 30 June 2004	2	713	715		
At 30 June 2003	3	728	731		

Notes (continued)

The net book value of land and buildings comprises:

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Freehold	<u>2,603</u>	<u>2,659</u>	<u>713</u>	<u>728</u>

Land and building are carried at cost, with the exception of the Company's freehold property in Burnley which is carried at a revalued amount. The property was revalued by independent valuers at an open market value of £850,000 at January 1995. If land and buildings had not been revalued the following amounts would have been included in the balance sheet:

	Group	Company
	2004	2004
	£000	£000
Historical cost	3,012	755
Depreciation	(488)	(122)
Net book value at 30 June 2004	<u>2,524</u>	<u>633</u>
Net book value at 30 June 2003	<u>2,578</u>	<u>646</u>

The consolidated depreciation charge for the year, based on the historic cost, would have been £68,000 (2003: £56,000).

13 Stocks

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Raw materials and consumables	168	146	-	-
Finished goods and goods for resale	1,065	2,011	-	-
	<u>1,233</u>	<u>2,157</u>	<u>-</u>	<u>-</u>

14 Debtors

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Trade debtors	3,046	2,152	-	-
Prepayments	212	297	-	-
Other Debtors	760	252	4	72
Corporation Tax Refundable	6	-	6	-
	<u>4,024</u>	<u>2,701</u>	<u>10</u>	<u>72</u>

Notes (continued)

in the debtors above are:	2004	2003
	£000	£000
Other debtors	129	-
	<u>=====</u>	<u>=====</u>

The other debtor due after more than one year relates to a long term loan to Netsol Connect (Private) Limited, an overseas associated company.

15 Creditors: amounts falling due within one year

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Bank loans and overdrafts and mortgages	680	882	-	-
Obligations under finance leases	3	5	-	-
Trade creditors	1,143	1,153	-	-
Corporation tax	99	12	-	12
Other taxes and social security	356	296	-	-
Other creditors	411	970	-	-
Accruals	244	-	-	-
Amounts due to subsidiary undertakings	-	-	5,381	5,484
Directors' current account	4	-	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
	2,940	3,318	5,381	5,496

16 Creditors: amounts falling due after one year

	Group		Company	
	2004	2003	2004	2003
	£000	£000	£000	£000
Bank mortgage				
Instalments payable within five years	682	780	-	-
Instalments payable after five years	-	78	-	-
Obligations under finance leases	5	4	-	-
	<u>=====</u>	<u>=====</u>	<u>=====</u>	<u>=====</u>
	687	862	-	-

The bank mortgages, which are repayable in monthly instalments to 2008, bear interest at 1.25% above LIBOR and are secured by a fixed charge over the company and the group's freehold properties. The other bank facilities are secured by fixed and floating charges over certain of the assets of the company and the group.

Notes (continued)

17 Provisions for liabilities and charges

	Deferred Taxation £000	Other provisions £000	Total £000
Group			
At beginning of year	4	182	186
Transfer from other creditors	-	-	-
Utilised during the year	-	(120)	(120)
Additional Provision	17	-	17
	<u> </u>	<u> </u>	<u> </u>
At end of year	21	62	83
	<u> </u>	<u> </u>	<u> </u>

The provision made represents the director's view of the total cost of settling a dispute, which is likely to occur one year from the balance sheet date.

The amounts provided for deferred tax and the amounts not provided are set out below:

	2004 Provided £000	2003 Provided £000
Difference between accumulated Depreciation and amortisation and capital Allowances (asset)/liability	21	4
	<u> </u>	<u> </u>

18 Called up share capital

	2004 £000	2003 £000
Authorised		
10,000,000 Ordinary shares of 10p each	1,000	1,000
	<u> </u>	<u> </u>
Allotted, called up and fully paid up	£000	£000
4,695,548 Ordinary shares of 10p each	470	470
	<u> </u>	<u> </u>

Notes (continued)

19 Reserves

	Share Premium Account £000	Group Revaluation Reserve £000	Profit And Loss Account £000
At beginning of year	69	95	5,373
Exchange movements	-	-	(13)
Profit for the financial year	-	-	351
	<hr/>	<hr/>	<hr/>
At end of year	69	95	5,711
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

	Share Premium Account £000	Company Revaluation Reserve £000	Profit And Loss Account £000
At beginning of year	69	95	113
Profit for the financial year accumulated with reserves	-	-	31
	<hr/>	<hr/>	<hr/>
At end of year	69	95	144
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

20 Commitments

The group has no material capital commitments at 30 June 2004.

Annual commitments under non-cancellable operating leases in respect of land and buildings are as follows:

	2004 £000	2003 £000
Operating leases which expire in more than five years	12	12
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

21 Reconciliation of operating profit to operating cash flows

	2004	2003
	£000	£000
Operating profit	383	379
Depreciation charge	558	577
Decrease / (Increase) in stocks	924	(409)
(Increase)/decrease in debtors	(864)	1,454
(Decrease)/increase in creditors	(263)	(175)
Exchange differences	(13)	(266)
Loss on disposal of fixed assets	6	12
Exceptional items	-	(403)
	<hr/>	<hr/>
Net cash inflow from operating activities	731	1,169

22 Analysis of cash flows

	2004	2003
	£000	£000
Returns on investment and servicing of finance		
Interest received	78	121
Interest paid	(84)	(177)
Interest element of finance lease payments	-	-
	<hr/>	<hr/>
Net cash outflow from returns on investment and servicing of finance	(6)	(56)
	<hr/>	<hr/>
Taxation		
UK corporation tax paid	(12)	(95)
	<hr/>	<hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(46)	(45)
Purchase of investment	(127)	-
Sale of tangible fixed assets	-	2
Net loan to associate	6	69
Short Term investments	(160)	(550)
	<hr/>	<hr/>
Net cash outflow from capital expenditure and financial investment	(327)	(524)
	<hr/>	<hr/>
Financing		
Repayment of mortgage	167	402
Capital element of finance lease rental payments	3	33
	<hr/>	<hr/>
Net cash outflow from financing	170	435
	<hr/>	<hr/>

Notes (continued)

23 Analysis of net debt

	At beginning of year	Cash flow	Other Non- cash changes	At end of Year
	£000	£000	£000	£000
Cash in hand, at bank	71	2	-	73
Bank loans, overdrafts and mortgages	(882)	202		(680)
	<hr/>	<hr/>	<hr/>	<hr/>
	(811)	204		(607)
Finance leases	(9)	6	-	(3)
	<hr/>	<hr/>	<hr/>	<hr/>
	(820)	210	-	(610)
Debt due after one year	(858)	176	-	(682)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	(1,678)	386	-	(1,292)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

24 Transactions with directors

There is an amount of £432,171 (2003 - £122,624) outstanding from H A Mughal. A benefit in kind has been declared on this amount.

25 Related party disclosures

As explained in note 10, Fixed asset investments, Akhter Group PLC has a 26.8% holding in Ultima Networks PLC. This investment has been treated as an associate for the purposes of preparing these accounts and hence Ultima Networks PLC is a related party in accordance with the provision of FRS8, Related Party Disclosures. Akhter Group and its associates, namely HA Mughal, the Akhter Education Foundation Trust, the Akhter Group plc Directors SSAS Pension Fund and the Akhter Unapproved Pension Fund collectively own 49.26% of the issued ordinary share capital of Ultima Networks PLC at the balance sheet date.

26 Ultimate controlling party

The ultimate controlling party is H A Mughal.