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Chairman's Statement

Compel Report & Accounts 2002

Compel's performance this year was respectable against a backdrop of the most difficult market conditions the IT industry has ever experienced. Results before goodwill were in line with our own and the market's expectations and the business remains well funded, with almost £10 million cash in the bank.

From an already depressed position, IT markets declined materially during July and August 2001. Expenditure levels stabilised during September 2001 and we have seen them broadly at this level since then.

In the light of the Q1 market dynamic and of our views on the likely ongoing level of demand, we acted swiftly and decisively last September. We cut our annualised cost base by approximately £1 million, incurring an exceptional restructuring cost of £513,000 in so doing.

Since then, we have focused strongly and successfully on:

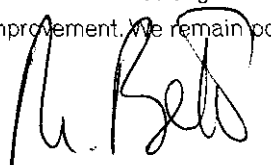
- High levels of customer service
- Sales momentum
- Cost control and profitability
- Cash
- Increasing the value quotient of the solutions we offer.

Our employees have performed very well; in this difficult climate, their commitment and tenacity has been outstanding. On behalf of the directors and shareholders, I thank them.

In the light of current conditions in our market and uncertainty over the speed of its recovery, we have reviewed the carrying value of the Group's investments and our goodwill amortisation policy. This review concluded that our investment in Compelreach, acquired in January 2000, should be written down to reflect our revised estimate of its value to the Group. We also decided to reduce the period of goodwill amortisation generally from 20 years from acquisition to 10 years, which has resulted in an increased charge for the year. More details of these changes are given in the Financial Review.

Current market conditions remain difficult. We are not seeing signs of further decline, but neither is there evidence of improvement. We believe we are increasing our market share, but a material change is difficult in these market conditions. We are certain that there will come a point when customers increase their expenditure on IT, but it is impossible to predict when this will happen and foolhardy to place any reliance upon any upturn at this time.

Compel is well positioned against these market conditions. We have a clear strategy, a sound structure, a low cost base and excellent people; we are profitable and we have cash in the bank. The solutions we offer, and which we continue to develop, are those in which customers will invest and we are primed to take strong advantage of any market improvement. We remain positive about the future.



Sir Michael Bett
Chairman

8 October 2002

Operating Review

For the year ended 30 June 2002

Introduction

The year ended 30 June 2002 has been another difficult one for Compel. In very poor market conditions I do, however, believe that our performance was creditable and effective.

Mission, Strategy and Structure

Our mission is to be the UK's leading provider of IT Solutions. Our strategy is to build a customer focused business that develops and provides Enterprise Solutions and Rental Solutions.

Compel functions as a single business, comprising two divisions: Compelsolve (Enterprise Solutions) and Hamilton Rentals (Rental Solutions). Where appropriate, these two divisions work together to meet customer needs.

Market

Market conditions appear to have stabilised, but have done so at a very low level.

Within our target customers and prospects, we are seeing a general trend to incur IT expenditure and to make IT investment only where it is essential to do so or where there is a clear, rapid return on investment. Customers continue to spend on their IT infrastructure, but this is predominantly where they are seeking to optimise previous investment, rather than to undertake anything substantively new. We have seen some exceptions to this, but these are rare. Ultimately, there will come a point when the benefits from material IT investment will be so overwhelming that customers will choose to invest, but it is impossible to predict when.

On 3 May 2002 the acquisition of Compaq by Hewlett Packard was eventually completed. Given our strong historical relationships with both these manufacturers, we believe that this outcome is good for Compel, particularly in the longer term. In the short term, the integration of these organisations is progressing positively, but there is inevitably some distraction resulting therefrom.

Performance

During the year we have been very focused upon a small number of key business imperatives.

We have reduced and controlled our costs, whilst ensuring that we did not damage the key fabric of the business, especially in the areas of customer facing services and sales. Indeed, we have particularly and successfully prioritised achieving a very high level of customer service and have had no material customer losses during the period; our sales momentum and orientation has also been strong.

We have continued to develop the Solutions we offer, ensuring that we are able to deliver ever more value to our customers. At the heart of this is an increasing orientation towards application centric and technically complex Solutions.

We see Services as an integral element of all of the Solutions we offer and we are growing our consulting, implementation, support and out-tasking services.

Operating Review

For the year ended 30 June 2002

COMPEL^{SOLVE}

Compelsolve is a leading provider of IT Enterprise Solutions.

In line with the market, the revenues of this division declined compared to last year. Compelsolve focuses upon four key Solutions areas:

- Oracle

Compelsolve is Oracle's leading partner in the UK; we grew our Oracle Practice over the period, increasing our market share and further strengthening our relative position.

We provide tailored Solutions based around both of Oracle's key business streams: Infrastructure (predominantly database software) and Applications.

We were recently awarded Oracle UK's Infrastructure Partner of the Year Award for the third year running, as well as Oracle's EMEA Partner of the Year Award for the first time.

- Data Management

During the year we established Data Management as a new practice, consolidating our activities in the areas of Enterprise Management and Security and Enterprise Storage. Our Solutions encompass the provision of systems performance management and security, as well as innovative and effective ways to meet the increasing corporate requirements for data storage.

- Technology Solutions

Here we provide design, integration, implementation and support of mid-range and enterprise technologies. We have material relationships with all of the major computer manufacturers in this area.

- Digital Communication

We provide a comprehensive range of Communication Solutions, harnessing web-based and multimedia technology to do so. This activity is branded Compelreach.

HAMILTON RENTALS

Hamilton Rentals is the UK's leading provider of IT Rental Solutions. We offer short term full service rental of an extremely comprehensive range of information technology, encompassing the entire spectrum of desktop, mid-range and enterprise areas, for periods ranging from one day to two years.

Revenues in this division declined in line with the overall IT market, which IT short term rental typically mirrors.

Using our skills and experience, we successfully managed down the size of our rental fleet to reflect the decline in the market and avoided taking any abnormal write-offs in so doing. The fleet is now optimised for current business levels. During the period we also focused strongly on enhancing the pro-active sales orientation of the business.

Operating Review

Conclusion

Compel is a sound business in a difficult market.

During the year ended 30 June 2001, we made some very material changes to the strategic direction of the business. Subsequent events have strongly vindicated the actions we took.

During the year to 30 June 2002, we refined our strategy, while making operational changes to reflect further deterioration in the market.

In the short term, it is very difficult to predict the direction of the market. We do not expect a further decline, but neither do we expect a material improvement; we consider it most likely that current market conditions will persist. Against this backdrop

we will remain flexible, continue to take market share and continue to develop Compel, in both the short and the long term, to ensure that the solutions we offer to our customers are attractive to them.

We enter the new financial year with a clear and powerful strategy, with high quality and very committed people, with a strong balance sheet and with the appetite and aggression to take advantage of every opportunity that arises.



Neville Davis
Chief Executive

Financial Review

For the year ended 30 June 2002

Results

Turnover from continuing operations declined by 28% to £63.9 million as a result of the adverse market conditions experienced since the first months of the year. Gross profit reduced by 24% to £16.2 million. Percentage gross margin however improved from 23.8% in 2001 to 25.3% in 2002 due to lower product sales during the latter period combined with continuing growth in higher margin services revenues.

Total operating expenses of £19.1 million include exceptional costs of £1.0 million and goodwill charges of £3.2 million, as detailed below. The group has taken rigorous action during the year to reduce operating costs. Operating expenses before exceptional costs and goodwill were £14.9 million compared to £17.2 million in 2001, a reduction of 13%.

Operating profit for the year, after exceptional items and before goodwill charges, was £1.3 million.

Exceptional items

In the light of market conditions a restructuring programme was carried out in the first half to reduce the operating cost base. Restructuring costs of £0.5 million were incurred, principally comprising staff severance costs and the rationalisation of operational and warehouse capacity.

As a result of the disposal of Compelsource in March 2001, certain retained leasehold premises became surplus to Group requirements, and provision was made in the accounts for the year ended 30 June 2001 to cover rental and other expenses on this surplus property for the estimated period until tenants could be found. While progress has been made in subletting some premises, the market for commercial premises remains subdued and a longer period is now expected until tenants are found for the remaining properties.

A further provision of £0.5 million for vacant leasehold premises has therefore been made in this year's accounts.

The consolidated profit and loss account for this year also includes exceptional income of approximately £1.0 million (shown as Other operating income) in recognition of a dividend received by our subsidiary Hamilton Rentals. This amount was received from the liquidators of a company of which Hamilton Rentals was an unsecured creditor. The debt was written off as irrecoverable by Hamilton Rentals in 1989, and no further payment was expected to be received from the liquidators.

The net effect of these exceptional items on profit for the year is virtually nil.

Goodwill amortisation and impairment

In accordance with FRS11 (Impairment of Fixed Assets and Goodwill) the carrying value of the Group's investment in Compelreach at 30 June 2002 has been compared to the recoverable amount, represented by its value in use to the Group. The value in use has been derived from discounted cash flow projections which cover the five years from 1 July 2002. After the five year period, the projections use a long term growth rate of 2.25%. The discount rate used to arrive at this calculation was 14% on a pre-tax basis. The review has resulted in a goodwill impairment charge to operating expenses of £2.1 million in respect of this acquisition.

The Board has also considered its policy on goodwill amortisation generally, in particular the period over which goodwill is written off, and has concluded that a period of 10 years from acquisition is more appropriate than 20 years. The revision has been applied in full for the year and the effect is to increase goodwill amortisation for 2002 by £0.5 million.

As a result of these changes the annualised goodwill amortisation charge is now £0.8 million.

Financial Review

Tax

The Group has adopted FRS19 (Deferred Tax) during the year.

The profit and loss includes a tax credit for the year of £0.7 million (2001: tax charge of £1.2million). The tax credit arises principally from capital allowances in excess of depreciation in Hamilton Rentals and a reduction in the estimated tax charge for previous years. The Group has further unrecognised capital allowances and tax losses of £2.2 million which can be utilised in future periods.

Earnings per share and dividends

The Group recorded a basic loss per share after goodwill charges, in accordance with FRS14, of 3.2p (2001: loss of 47.0p). Excluding goodwill charges, basic earnings per share for the year amounted to 7.2p (2001: loss of 49.4p).

The Board has proposed a final dividend for the year of 1.0p, which together with the interim dividend of 0.5p makes a total of 1.5p for the year.

Balance Sheet and Cash Flow

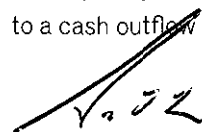
Revenues in Hamilton Rentals reduced during the year, reflecting the decline in IT expenditure generally, and action was taken early to reduce the size of the rental asset fleet to match demand. The book value of rental assets reduced by 14% from £6.3 million to £5.4 million over the year. This was achieved without abnormal write-downs and while continuing to refresh the rental fleet. New purchases for the year were £6.7 million (2001: £7.1 million), while the rate of disposal was increased, realising proceeds of £3.2 million compared to £2.2 million in 2001 and generating profits on disposal of £0.4 million.

At 30 June 2002 the Group had a strong net funds position of £7.7 million. Cash balances amounted to £9.7 million and short term treasury deposits £3.7 million. Total debt was £5.7 million, comprising £2.6 million in bank loans and loan notes of £3.1 million.

Cash generation remains strong with cash inflow generated from operating activities at £6.7 million. Operating cash inflow, after new expenditure on the rental fleet less disposals, was £3.2 million.

After net interest receipts of £0.2 million, tax paid of £0.7 million and dividends of £0.6 million, the Group had an overall net cash inflow before financing of £1.9 million.

In October 2001 deferred consideration of £4.0 million was paid to the vendors of Pangaea Limited, of which £0.4 million was satisfied by the issue of shares and £3.6 million by loan notes backed by existing cash resources. The loan notes were subsequently redeemed during the year, contributing to a cash outflow from financing of £5.4 million.



Andrew Lee
Finance Director

The Board of Directors

Executive Directors

Neville Davis BA, FCA (Age 47)

Chief Executive

Neville Davis is a graduate from the University of Kent and qualified as a Chartered Accountant with Deloitte, Haskins & Sells in London. He joined Compel in 1980 and was appointed Managing Director in 1983. He led a management buy-out in 1987 since when he has been Chief Executive.

Andrew Julian Lee BA, FCMA (Age 45)

Finance Director and Company Secretary

Andrew Lee is a graduate from Nottingham University. He joined the Group as an accountant in 1980, subsequently qualifying with the Chartered Institute of Management Accountants. He became a director of Compel PLC in 1990 and was appointed to the Group Board in 1994.

David Paul Frankling (Age 49)

Chief Operating Officer

Dave Frankling has worked in the computer industry since 1970 holding board positions for the past 17 years. He joined Hamilton Rentals PLC in 1990 as Sales and Marketing Director and became Managing Director in 1995. He was appointed to the Board in 1997 following the acquisition of the Hamilton Rentals group.

Non-Executive Directors

Sir Michael Bett CBE, MA (Age 67)

Chairman

Mike Bett joined Compel as a non-executive director in 1993 and is a member of the audit, nomination and remuneration committees. He was appointed Chairman in 2000. He is also Chairman of Pace Micro Technology plc, the Pensions Protection Investment Accreditation Board, the National Security

Inspectorate, the Royal Hospital for Neuro-disability and of the White Ensign Association and pro Chancellor of Aston University. He is a non-executive director of Eyretel PLC and Ordnance Survey.

His background is in personnel and general management. He was Personnel Director of GEC and subsequently Director of Personnel at the BBC. He joined British Telecom in 1981 as Personnel Director and was Managing Director of BT (UK) from 1985 to 1991, then Deputy Chairman until 1994. He was Chairman of Cellnet Group Limited from 1992 until 1999. He has also served on a number of public bodies, including pay review boards and committees of enquiry. He retired as First Civil Service Commissioner in 2000.

Ronald Clark CEng, MIMechE (Age 65)

Deputy Chairman

Ron Clark joined Compel as a non-executive director in 1989 and became Deputy Chairman in 1990. He is the senior non-executive director and chairs the audit, nomination and remuneration committees. He qualified as an engineer before obtaining senior management experience with GEC. He was Chief Executive of Plessey International Electronics Components Limited, then Chairman and Chief Executive of BICC Technologies Limited and a main board director of BICC Plc. He has held a number of posts as both Chairman and non-executive director of quoted and unquoted companies, and has acted as an adviser for various venture capital initiatives.

Richard Leland Measelle CPA (Age 63)

Dick Measelle joined the Board as a non-executive director in 1999 and is a member of the audit and remuneration committees. His executive career of 37 years was spent with Arthur Andersen, undertaking a range of increasingly senior roles throughout the world. He was Worldwide Managing Partner for nine years until he retired in 1998. Dick is also a non-executive director of Eyretel PLC.

Report of the Directors

For the year ended 30 June 2002

The directors present their report and the audited consolidated accounts of Compel Group PLC and its subsidiaries for the year ended 30 June 2002.

Statement of Directors' Responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of both the Company and Group and of the profit or loss for that period. In preparing those accounts, 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 accounts;
- prepare the accounts 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 accounts 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.

Principal Activity and Business Review

The principal activity of the Group is the provision of IT solutions. A review of the Group's activities during the year is given in the Chairman's Statement and the Operating and Financial Reviews.

Dividends

The directors recommend payment of a final dividend of 1 pence per share which, together with the interim dividend of 0.5 pence per share already paid, makes a total dividend of 1.5 pence per share for the year (2001: 3.0p).

Directors and their Interests

The names and biographical details of the directors are set out on page 9. In accordance with the Articles of Association, N Davis and R Clark are due to retire at the forthcoming AGM and, being eligible, offer themselves for re-election. Details of the directors' service contracts are contained in the Remuneration Report.

The interests of the directors in the share capital of the Company, including share options, are set out in note 5 to the accounts.

Substantial Interests

At 30 September 2002 the Company had been notified of the following interests which amounted to 3% or more of the issued share capital of the Company:

Shareholder	No of Shares	Percentage Holding
3i European Technology Trust	1,150,000	3.71%
3i Group PLC	1,852,377	5.97%
Fidelity Investments	2,526,858	8.15%
Friends Ivory Sime	1,250,202	4.03%
General Accident	1,060,000	3.42%
Hill Samuel Asset Management	1,943,652	6.26%
N Davis	1,910,064	6.16%
Schroder Investment Management	5,568,948	17.95%
Specialist Computer Holdings	3,536,000	11.40%

Report of the Directors

Authority to Purchase the Company's Own Shares

At 30 June 2002, the Company had authority under a shareholders' resolution of 31 October 2001, to purchase in the market up to 1,516,629 shares, being 5% of the Company's ordinary shares, at prices ranging from 5p per share to 105% of the average of the middle market quotation for the 5 business days preceding the day of purchase. This authority expires on 19 November 2002, at the Annual General Meeting, when a resolution will be proposed to renew the authority. The directors have no immediate intention to use the existing or proposed authority to purchase the Company's own shares but would do so if satisfied that it would be in the best interest of the Company.

On 13 July 2001, 25,000 shares with a nominal value of £1,250 were purchased for a consideration of £20,080 reducing share capital by 0.08%. The directors considered that utilising available cash resources to purchase these shares was in the best interest of the Company.

Employees

The Group is committed to the principle of Equal Opportunities as an employer. It is the Group's policy to give full consideration to applications for employment by disabled persons and to encourage their training and career development. If employees become disabled every effort will be made to enable them to continue in employment.

Directors and managers provide employees with information on matters affecting them as employees. Staff are briefed at regular meetings and are encouraged to share their views.

Employees are encouraged to invest in Compel Group PLC by participating in share option schemes. The Board believes that share options have an important role to play in attracting, motivating and retaining employees at all levels and in aligning employees' interests with those of shareholders.

Payments Policy and Practice

The Group values its relationships with suppliers. It is the Group's policy to negotiate terms with suppliers and ensure that payments are made in accordance with the agreed terms and conditions, provided that the supplier has also complied with them. Wherever possible suppliers are notified of amounts in dispute before payment is due.

The Company had trade creditors of £73,623 at 30 June 2002 and made purchases on trade credit during the year of £1,072,964 (including VAT) resulting in a payment period of 25 days.

Donations

During the year the Group made charitable donations totalling £4,048 (2001: £975).

The Group made no political donations (2001: £nil).

Annual General Meeting

Shareholders are referred to the Notice of Annual General Meeting on page 39.

Auditors

A resolution to reappoint KPMG Audit Plc as auditors will be proposed at the Annual General Meeting.

By order of the Board



A J Lee
Secretary

8 October 2002

Corporate Governance

Statement of Compliance

The Board considers that the Company has complied throughout the financial year with the provisions set out in Section 1 of the Combined Code, except for code provision B7 (notice periods), as noted in the Remuneration Report.

The Board

The Board is responsible for strategy, performance appraisal, approval of acquisitions, disposals and major capital projects, and the framework of internal controls. It is scheduled to meet formally six times a year with additional meetings called as required. The Board also meets twice a year for a full day to focus on strategy.

The information that the Board receives to enable it to discharge its duties includes written reports from the executive directors, monthly management accounts, operational performance indicators, market research and other industry information. The Board has agreed a schedule of matters that are reserved to it for decision. There is a procedure for the directors to take independent advice if necessary, at the Company's expense.

The Board comprises three executive directors and three non-executive directors. All of the non-executive directors are considered by the Board to be independent. Ron Clark is the senior independent director. All directors are subject to election by shareholders at the Annual General Meeting following their appointment by the Board and to re-election by shareholders every three years.

Board Committees

The Board has delegated specific authority to a number of committees of which the following are the most significant:

The Remuneration Committee, which is chaired by Ron Clark, comprises the three non-executive directors and meets as necessary. It determines the individual remuneration packages for each of the executive directors and makes recommendations to the Board on the framework of executive remuneration and its cost. The terms of reference of the committee also include approving grants of options under the executive share option scheme and savings related share option scheme.

The Audit Committee, which is chaired by Ron Clark, comprises the three non-executive directors and meets three times a year. The committee provides a regular line of communication between the Board and the Group's auditors. Meetings are attended, by invitation, by the Finance Director and other executives. The Audit Committee reviews the annual and interim accounts before submission for approval by the Board. Its terms of reference also include review and consideration of the Group's accounting policies, the scope and results of the external audit and internal control issues.

The Nominations Committee meets as necessary. Its members are Ron Clark (Chairman), Neville Davis and Sir Michael Bett. The committee assesses the suitability of persons for appointment as directors and makes recommendations to the Board for its approval.

Relations with shareholders

The executive directors maintain regular dialogue with institutional investors and analysts. Formal presentations and meetings are held following the announcement of results and at other times as required. All shareholders are welcome to attend the Annual General Meeting, and to visit the Company's website, where financial results and further information on the Group's activities are published.

Corporate Governance

Internal Controls

The Board has established the procedures necessary to implement the guidance of the Turnbull Committee on Internal Control to enable the Group to comply with the relevant provisions of the Combined Code.

The Board has overall responsibility for the Group's system of internal control, and for reviewing its effectiveness. Internal control systems reflect the particular nature of the business concerned and are designed to manage, rather than eliminate, the risk of failure to meet business objectives, hence they can only provide reasonable, but not absolute, assurance against material mis-statement or loss.

The key components of the Group's overall system of financial control and the process for review are as follows:

- Risk assessment and evaluation takes place as part of the strategic planning process. A formal risk register has been established in which risks are ranked according to the probability of the risk actually materialising and the potential impact on the business. Key reporting procedures, control processes and mitigating actions are documented against each risk, to form a framework for internal control review.
- Detailed annual budgets are prepared, against which monthly performance is reported and monitored. Business managers regularly report on operational performance and other matters to the executive directors, subsidiary operating boards and management committees.
- Capital expenditure is regulated by the budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board.
- The Audit Committee monitors the controls which are in force and considers any perceived gaps in the control environment, including any control issues raised or recommendations made by the external auditors.

The Group does not have an internal audit function; this is considered appropriate given the present size of the Group and the close involvement of the executive directors in the operational management of the business.

The Board and the Audit Committee have carried out an annual review of the effectiveness of the system of internal control. The Board recognises the need to continue to develop and enhance control procedures in tandem with the continuing development of the Group's solutions and services capability.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Remuneration Report

The Remuneration Committee

The members of the committee during the year were:

Ron Clark (Chairman)

Sir Michael Bett CBE

Dick Measelle

Remuneration Policy

Executive remuneration packages are designed to attract, motivate and retain executive directors of the calibre required to achieve the Group's objectives and to align their interests with those of shareholders through significant and appropriate performance related elements. The Remuneration Committee considers packages offered by comparable companies and seeks external advice as necessary.

Directors' Remuneration

The components of the remuneration package are outlined below. Details of the remuneration for each director are shown in note 5 to the accounts.

Basic Salary and Benefits

Basic salaries are reviewed annually by the Remuneration Committee, taking account of the Group's results, individual performance, market rates and employee remuneration within the Group.

Benefits comprise a fully expensed car or car allowance, healthcare, life and permanent health insurances.

Performance Related Bonuses

Executive directors are eligible for an annual bonus, based on growth in earnings per share and achievement of specific performance objectives relevant to each director's executive responsibilities. In each case a significant proportion of the maximum bonus is dependent on growth in earnings per share. The Remuneration Committee sets performance objectives and targets for earnings per share growth for each financial year.

Pension Contributions

The Group contributes 13% of basic salary (D Frankling: 17.4%) to a defined contribution pension scheme or to the director's nominated personal pension plan. Non-executive directors are ineligible to join the Company's pension scheme.

Share Option Schemes

The Company operates a savings related share option scheme, and an executive share option scheme. Both schemes are open to all employees. Details of options granted to and exercised by the executive directors are shown in note 5 to the accounts.

Fees

Non-executive directors' fees are determined by the Board as a whole within the limits stipulated in the Articles of Association. Individual directors are not involved in any discussions or decision about their own remuneration.

Voluntary Reduction in Remuneration

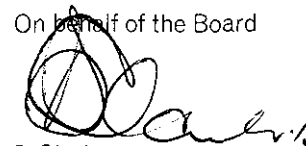
All directors agreed to a voluntary reduction of 10% of basic salary or fees from October 2001 for the duration of the financial year.

Service Contracts

The executive directors are employed under service contracts with entitlement to a rolling period of notice of one year, other than Neville Davis who has a rolling eighteen month contract. The Board has set an objective that notice periods should be one year or less, but does not believe it is in the best interest of the Group to seek to modify existing contracts. There are no provisions for predetermined compensation on termination.

The non-executive directors do not have service contracts.

On behalf of the Board



R Clark

Chairman, Remuneration Committee

Report of the Independent Auditors

To the Members of Compel Group PLC

We have audited the accounts on pages 16 to 38.

Respective Responsibilities of Directors and Independent Auditors

The directors are responsible for preparing the Annual Report, including as described on page 10 the accounts in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the accounts 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 accounts, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 12 and 13 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control covers 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 the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited accounts. We consider the

implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts.

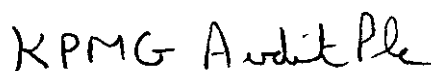
Basis of Audit Opinion

We conducted our audit in accordance with 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor
8 Salisbury Square
London EC4Y 8BB

8 October 2002

Accounting Policies

Basis of Preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards and the Companies Act 1985 except as stated under the 'fixed asset investment' note (note 11).

The Group has adopted FRS 17 'Retirement Benefits', FRS 18 'Accounting Policies' and FRS 19 'Deferred Tax' in these accounts. All other accounting policies outlined below have been applied consistently, in dealing with items which are considered material in relation to the Group's accounts.

Basis of Consolidation

The Group accounts include the accounts of the Company and its subsidiary undertakings made up to 30 June 2002.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Intra-Group sales and profits are eliminated on consolidation and all sales and profit figures relate to external transactions only.

In accordance with Section 230 of the Companies Act 1985, a separate profit and loss account of Compel Group PLC is not presented. A loss for the financial year of £1,862,000 has been dealt with in the individual company accounts.

Intangible Assets - Goodwill

Purchased goodwill arising on consolidation in respect of acquisition before 1 July 1998, when FRS 10 'Goodwill and intangible assets' was adopted, was written off to reserves in the year of acquisition.

When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given and associated costs over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 July 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Revenue Recognition

Revenue from product sales is recognised on delivery of the equipment. Revenue from consultancy and other professional services is recognised as the services are performed.

Revenue from equipment rental, software support and hardware maintenance provided by the Group is recognised rateably over the term of the agreement on a straight line basis. The unrecognised revenue is shown separately in the balance sheet as deferred income.

For contracts involving a combination of products and services, revenue is recognised on each element in accordance with the above policy, unless all elements are considered to be interdependent and not separately deliverable, when revenue is recognised based on the stage of completion. On major contracts extending over more than one accounting period, revenue is recognised based on the stage of completion when the outcome of the contract can be foreseen with reasonable certainty and after allowing for costs to completion.

Accounting Policies

Tangible Fixed Assets and Depreciation

Tangible fixed assets are stated at original cost less depreciation. Depreciation is charged on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset in equal instalments over its estimated useful economic life as follows:

	Annual Rate
Rental equipment	33 - 50% or more if prudent
Office equipment, fixtures and fittings	10 - 50%
Computer systems and equipment	20 - 50%
Motor vehicles	33% or life of the lease

Costs relating to capital work in progress are accumulated during the project. On completion and commissioning of the asset, depreciation is charged in accordance with the above policy.

Fixed Asset Investments

Fixed asset investments are held at cost less provision for impairment.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Pension Costs

Pension costs charged to the profit and loss account represent the contributions payable for the accounting period to defined contribution pension schemes and employees' personal pension plans. The assets of the schemes are held separately from those of the Group in independently administered funds.

Stocks

Stocks are stated at the lower of cost and net realisable value. Net realisable value represents the estimated proceeds from the sale or use of items of stock less all further costs directly relating to their disposal.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Financial Instruments

The Group's financial instruments comprise loan capital, borrowings, cash and liquid resources, and various items, such as trade debtors and trade creditors, that arise directly from its operations. The Group's policy towards using financial instruments is to manage interest rate risk and liquidity risk, which are the main risks arising, without exposing the Group to undue risk or speculation.

Consolidated Profit and Loss Account

For the year ended 30 June 2002

		2002 Total £'000	Continuing Operations £'000	2001 Discontinued Operations £'000	Total £'000
	Note				
Turnover	1	63,892	88,837	146,894	235,731
Cost of sales		(47,709)	(67,677)	(133,142)	(200,819)
Gross profit		16,183	21,160	13,752	34,912
Operating expenses		(19,156)	(17,766)	(16,884)	(34,650)
Other operating income	3	1,028	—	—	—
Operating profit/(loss) before exceptional costs and goodwill		2,298	3,953	(4,465)	(512)
Exceptional costs	3	(1,037)	—	—	—
Operating profit/(loss) before goodwill		1,261	3,953	(4,465)	(512)
Goodwill amortisation and impairment	3	(3,206)	(559)	1,333	774
Operating (loss)/profit		(1,945)	3,394	(3,132)	262
Loss on disposal of discontinued operations		—			(12,931)
Loss on ordinary activities before interest		(1,945)			(12,669)
Interest receivable and similar income		595			631
Interest payable and similar charges	2	(341)			(1,329)
Loss on ordinary activities before taxation	3	(1,691)			(13,367)
Taxation on loss on ordinary activities	6	706			(1,204)
Loss on ordinary activities after taxation		(985)			(14,571)
Dividends	7	(467)			(892)
Retained loss for the financial year	21	(1,452)			(15,463)
Earnings/(loss) per ordinary share					
Basic and diluted	8	(3.2p)			(47.0p)
Basic and diluted - before goodwill charges	8	7.2p			(49.4p)

Compel Group PLC has no recognised gains nor losses during the current and previous year other than those passing through the Profit and Loss account.

Consolidated Balance Sheet

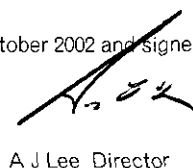
As at 30 June 2002

	Note	2002 £'000	2001 £'000
Fixed assets			
Intangible assets - goodwill	9	6,611	9,849
Tangible assets	10	6,143	7,734
Investments	11	80	80
		12,834	17,663
Current assets			
Stocks	12	297	257
Debtors	13	14,511	17,819
Investments	14	3,731	3,786
Cash at bank and in hand		9,655	13,054
		28,194	34,916
Creditors			
Amounts falling due within one year	15	(18,147)	(26,081)
Net current assets		10,047	8,835
Total assets less current liabilities		22,881	26,498
Creditors			
Amounts falling due after more than one year	16	(1,700)	(2,631)
Provisions for liabilities and charges	18	(1,501)	(2,041)
Deferred income	19	(1,096)	(970)
Net assets		18,584	20,856
Capital and reserves			
Called up share capital	20	1,551	1,518
Shares to be issued	21	—	1,200
Share premium account	21	4,951	4,951
Capital reserve	21	1,865	1,865
Other reserves	21	3,786	8,277
Profit and loss account	21	6,431	3,045
Equity shareholders' funds	22	18,584	20,856

Approved by the board on 8 October 2002 and signed on its behalf by



N Davis Director




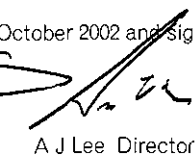
A J Lee Director

Company Balance Sheet

As at 30 June 2002

	Note	2002		2001	
		£'000	£'000	£'000	£'000
Fixed assets					
Investments	11		17,633		22,016
Current assets					
Debtors - due within one year		7,099		6,457	
- due after one year		2,900		2,900	
	13	9,999		9,357	
Investments	14	3,731		3,786	
Cash at bank and in hand		5,546		11,493	
		19,276		24,636	
Creditors					
Amounts falling due within one year	15	(4,310)		(10,114)	
Net current assets			14,966		14,522
Total assets less current liabilities			32,599		36,538
Provisions for liabilities and charges	18	(743)		(2,000)	
Net assets			31,856		34,538
Capital and reserves					
Called up share capital	20		1,551		1,518
Shares to be issued	21		-		1,200
Share premium account	21		4,951		4,951
Capital reserve	21		18,393		18,393
Other reserves	21		3,786		8,277
Profit and loss account	21		3,175		199
Equity shareholders' funds	22		31,856		34,538

Approved by the board on 8 October 2002 and signed on its behalf by

N Davis Director

A J Lee Director

Consolidated Cash Flow Statement

For the year ended 30 June 2002

	Note	2002 £'000	2001 £'000
Net cash inflow from operating activities	24	6,684	4,996
Returns on investments and servicing of finance			
Interest received		595	631
Interest paid		(358)	(1,409)
Interest on finance leases		(14)	(7)
		223	(785)
Taxation			
UK corporation tax paid		(727)	(354)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(6,932)	(8,676)
Proceeds on sale of tangible fixed assets		3,183	4,762
Payments to acquire investments		—	(55)
		(3,749)	(3,969)
Acquisitions and disposals			
Sale of subsidiary undertakings		—	13,004
Net overdraft sold with subsidiary		—	1,989
		—	14,993
Equity dividends paid		(551)	(1,957)
Net cash inflow before use of liquid resources and financing		1,880	12,924
Management of liquid resources			
Loan note and other treasury deposits		55	(59)
Financing			
Issue of shares		—	3
Repurchase of shares		(20)	(656)
Decrease in debt		(900)	(12,900)
Capital element of finance lease rental payments		(78)	(71)
Loan notes issued		46	59
Loan notes redeemed		(4,382)	—
Net cash outflow from financing		(5,334)	(13,565)
Decrease in cash in the year	25	(3,399)	(700)

Notes to the Accounts

1 Turnover and segmental information

Turnover comprises sales of computer systems and services to major computer users, within the United Kingdom. In the opinion of the directors, only one class of business is operated by the Group.

2 Interest payable and similar charges

	2002	2001
	£'000	£'000
Bank overdrafts	15	321
Bank and other loans, repayable within five years	312	1,001
Finance leases	14	7
	341	1,329

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2002	2001
	£'000	£'000
Auditors' remuneration [•]		
- Audit (Company)	26	13
- Audit (subsidiary undertakings)	41	50
Operating lease rentals		
- Plant, machinery and motor vehicles	520	1,904
- Other	1,224	1,760
Depreciation of owned assets		
- Rental assets	5,263	6,584
- For own use	1,096	2,483
Depreciation of leased assets	33	73
Profit on sale of tangible fixed assets	(406)	(623)
Goodwill amortisation and impairment [♦]	3,206	(774)
Exceptional costs [▲]	1,037	-
Other operating income [■]	(1,028)	-

• Services provided by the auditors in connection with the disposal of CompeSource amount to £150,000; this has been included in the expenses on disposal. (2001: £272,000).

♦ Goodwill amortisation and impairment comprises goodwill amortisation of £1,082,000 and an impairment charge of £2,124,000 on the goodwill arising on the acquisition of CompeSource Limited. The prior year includes the release of £1,333,000 of negative goodwill arising from the acquisition of InfoProducts UK PLC in 1999.

▲ Exceptional costs comprise property provisions of £524,000, being the cost of leasehold premises surplus to group requirements, for the estimated period until tenants can be found, and restructuring costs of £513,000, principally comprising staff severance and premises closure costs.

■ Other operating income comprises liquidation dividends received in respect of a debt previously written off.

Notes to the Accounts

4 Staff numbers and costs

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

	2002 Number	2001 Number
Sales and distribution	155	239
Technical	97	467
Administration	48	213
	300	919

The aggregate payroll costs of these persons were as follows:

	2002 £'000	2001 £'000
Wages and salaries	10,953	28,658
Social security costs	1,299	3,199
Pension costs	659	877
	12,911	32,734

5 Directors' remuneration and interests in shares

	Basic Salary/Fees £'000	Benefits £'000	Bonus £'000	2002 Total excluding pension £'000	Pension £'000	Total £'000	Total excluding pension £'000	2001 Pension £'000	Total £'000
Executive Directors									
N Davis	162	28	—	190	23	213	206	23	229
D P Frankling	129	15	—	144	22	166	157	22	179
W A Joss	—	—	—	—	—	—	20	2	22
A J Lee	92	16	—	108	13	121	118	13	131
Non-Executive Directors									
Sir M Bett	17	—	—	17	—	17	18	—	18
R Clark	46	—	—	46	—	46	50	—	50
R L Measelle	17	—	—	17	—	17	18	—	18
	463	59	—	522	58	580	587	60	647

Notes to the Accounts

5

Directors' remuneration and interests in shares (continued)

The beneficial interests of the directors and their connected persons in the shares of the Company as required to be notified by each director pursuant to Section 324 of the Companies Act 1985 and required to be shown in the Register of Directors' Interests maintained under Section 325 of the Companies Act 1985 were:

Ordinary shares of 5p each	As at 30 June 2002 Number	As at 30 June 2001 Number
N Davis	1,910,064	1,910,064
A J Lee	414,191	414,191
D P Frankling	333,886	333,886
R Clark	115,978	115,978
Sir Michael Bett	10,873	10,873
R L Measelle	24,626	14,310

On 16 July 2002, Sir Michael Bett acquired 35,000 ordinary 5p shares. There have been no other changes in the directors' holdings between 30 June 2002 and the date of this report.

An analysis of the share options held by each executive director is set out below

	At 1 July 2001	Granted during year	Exercised during year	Lapsed during year	At 30 June 2002	Exercise price	Market price on date of exercise	Date from which exercisable	Expiry date
N Davis	1,151	—	—	1,151	—	156p	—	01/05/2001	01/11/2001
	1,118	—	—	—	1,118	161p	—	01/05/2002	01/11/2002
	560	—	—	—	560	321p	—	01/05/2003	01/11/2003
	468	—	—	—	468	384p	—	01/05/2004	01/11/2004
	557	—	—	—	557	484p	—	01/05/2003	01/11/2003
	3,333	—	—	—	3,333	81p	—	01/05/2004	01/11/2004
	—	2,412	—	—	2,412	63p	—	01/05/2005	01/11/2005
D P Frankling	1,118	—	—	—	1,118	161p	—	01/05/2002	01/11/2002
	3,333	—	—	—	3,333	81p	—	01/05/2004	01/11/2004
	—	4,523	—	—	4,523	63p	—	01/05/2005	01/11/2005
	125,000 *	—	—	—	125,000	245p	—	26/03/2000	26/03/2007
	130,000 *	—	—	—	130,000	94p	—	10/04/2004	10/04/2011
A J Lee	1,151	—	—	1,151	—	156p	—	01/05/2001	01/11/2001
	1,118	—	—	—	1,118	161p	—	01/05/2002	01/11/2002
	560	—	—	—	560	321p	—	01/05/2003	01/11/2003
	468	—	—	—	468	384p	—	01/05/2004	01/11/2004
	557	—	—	—	557	484p	—	01/05/2003	01/11/2003
	3,333	—	—	—	3,333	81p	—	01/05/2004	01/11/2004
	—	2,412	—	—	2,412	63p	—	01/05/2005	01/11/2005

* Options granted under executive option schemes. All other options were granted under the savings related share option scheme.

The Company's share price at close of business on 30 June 2002 was 77.5p. The price range during the year was 53.5p to 93.5p. None of the non-executive directors held share options during the year. Executive options are subject to a performance condition that no option may be exercised unless the growth in earnings per share exceeds RPI + 2% per annum over a three year period. There have been no changes to the directors' share options between 30 June 2002 and the date of this report.

Notes to the Accounts

6 Taxation on loss on ordinary activities

	2002 £'000	2001 £'000
Current tax		
UK Corporation tax at 30% (2001: 30%)	(396)	1,046
Adjustments to tax charge in respect of previous periods	(310)	158
Total tax on loss on ordinary activities	(706)	1,204

The differences between the total current tax charge shown above and the amount calculated by applying the standard rate of corporation tax to the loss on ordinary activities before tax is as follows:

	2002 £'000	2001 £'000
Group loss on ordinary activities before tax	(1,691)	(13,367)
Tax on group loss on ordinary activities at standard national tax rates	(507)	(4,010)
Effects of:		
Expenses not deductible for tax purposes	944	1,426
Non-taxable items	(308)	(112)
Disallowable loss on business disposal	—	3,801
Capital allowances in excess of depreciation	(470)	677
Utilisation of tax losses	(55)	(736)
Adjustments to tax charge in respect of previous periods	(310)	158
Group current tax (credit)/charge for the period	(706)	1,204

Deferred tax

A deferred tax asset has not been recognised in respect of unrelieved tax losses of £1,020,000 (2001: £nil) and capital allowances of £1,118,000 (2001: £2,627,000) on the grounds that it is not considered recoverable at this time.

Notes to the Accounts

7 Dividends

	2002 £'000	2001 £'000
Interim equity dividend paid - 0.5p per ordinary share (2001: 1.7p)	155	498
Final equity dividend proposed - 1.0p per ordinary share (2001: 1.3p)	312	394
	467	892

8 Earnings/(loss) per share

The calculation of loss per ordinary share is based on a loss of £985,000 (2001: £14,571,000) and on a weighted average of 30,824,214 (2001: 31,033,714) ordinary shares in issue during the year. The calculation of diluted earnings/(loss) per ordinary share is based on the weighted average ordinary shares of 30,823,998 (2001: 32,330,062) which would arise if all outstanding share options were exercised and (for 2001) shares attributable to deferred consideration were issued. Diluted loss per share for 2001 is the same as basic loss per share as the impact of the dilutive potential ordinary shares would be to decrease the loss per share.

The earnings/(loss) per share information has been calculated as follows:

	2002 £'000	2001 £'000
Earnings/(loss) attributable to shareholders		
Basic and diluted loss per share	(985)	(14,571)
Effect of goodwill charges	3,206	(774)
Basic and diluted earnings/(loss) per share before goodwill charges	2,221	(15,345)
 Weighted average number of shares		
Basic and diluted earnings/(loss) per share	30,824	31,034

Notes to the Accounts

9 Intangible fixed assets - goodwill

	£'000
Cost	
At 1 July 2001	10,606
Decrease in the year	(32)
At 30 June 2002	<u>10,574</u>
Amortisation	
At 1 July 2001	(757)
Charge for the year	(1,082)
Goodwill impairment	(2,124)
At 30 June 2002	<u>(3,963)</u>
Net book value	
At 30 June 2002	<u>6,611</u>
At 30 June 2001	<u>9,849</u>

The goodwill arises from the acquisitions of Compelreach Limited in January 2000 and Midas Limited in March 2000. The decrease in cost during the year arises from a change in the estimated expenses payable in respect of the acquisition of Compelreach.

In accordance with FRS 11, 'Impairment of fixed assets and goodwill', the carrying value of the goodwill at 30 June 2002 arising from the investment in Compelreach has been compared to the recoverable amount, represented by its value in use to the Group. The value in use has been derived from the discounted cash flow projections which cover the five years from 1 July 2002. After the five year period, the projections use a long term growth rate of 2.25%. The discount rate used to arrive at this calculation was 14% on a pre-tax basis.

The review has resulted in an exceptional charge to operating expenses of £2.1m, in respect of this acquisition, which was partly financed by shares.

The directors have reconsidered the useful economic life of goodwill and have concluded that a life of 10 years from acquisition is more appropriate than 20 years. Accordingly, with effect from 1 July 2001, the remaining goodwill is being amortised on a straight line basis over the revised estimated remaining useful economic life. The effect of the revision of the economic useful life is to reduce Group profits by £543,000.

Notes to the Accounts

10

Tangible assets

CONSOLIDATED

Cost

	Rental equipment £'000	Office equipment £'000	Fixtures and fittings £'000	Computer systems and equipment £'000	Motor vehicles £'000	Total £'000
At 1 July 2001	23,455	1,272	54	3,348	96	28,225
Additions	6,659	19	117	314	–	7,109
Reclassification	59	(851)	851	(59)	–	–
Disposals	(8,594)	–	(200)	(200)	(74)	(9,068)
Assets written off	(6,431)	–	–	–	–	(6,431)
At 30 June 2002	15,148	440	822	3,403	22	19,835

Depreciation

At 1 July 2001	17,203	970	14	2,286	18	20,491
Charge for year	5,263	27	157	904	41	6,392
Reclassification	51	(652)	652	(51)	–	–
Disposals	(6,340)	–	(180)	(200)	(40)	(6,760)
Assets written off	(6,431)	–	–	–	–	(6,431)
At 30 June 2002	9,746	345	643	2,939	19	13,692

Net book value

At 30 June 2002	5,402	95	179	464	3	6,143
At 30 June 2001	6,252	302	40	1,062	78	7,734

Leased assets included above:

Net book value

At 30 June 2002	–	–	–	–	3	3
At 30 June 2001	–	–	–	–	74	74

Depreciation

Charge for year	–	–	–	–	33	33
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Notes to the Accounts

11

Investments

	Consolidated		Company	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Subsidiary undertakings	—	—	17,553	21,936
Investment	80	80	80	80
	80	80	17,633	22,016

Principal group investments

Compel Group PLC has the following investments in ordinary shares. All subsidiaries are wholly-owned and operate in the United Kingdom:

Subsidiary Undertakings	Country of Registration	Nature of Business
Compel Property Limited	England & Wales	Property management
Compelreach Limited	England & Wales	Digital communication
Compelsolve Limited	England & Wales	Dormant
Computer Microrentals Limited	England & Wales	Dormant
Hamilton Rentals Group Limited	England & Wales	Intermediate holding company

Investment

GlobalServe Incorporated	Delaware, USA	Global IT management services
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During the year, Compel Group PLC's holding of 2,000,000 \$.001 Series B Common Stock in GlobalServe Incorporated was converted to 2,016,959 \$.001 Series A-2 and C-1 Preferred Stock, as a result of a refinancing.

Subsidiary Undertakings

Investment at cost in subsidiaries	£'000
At 1 July 2001	21,936
Adjustment to cost	(32)
Provided during the year	(4,351)
At 30 June 2002	17,553

The adjustment to cost arises from a change in the estimated expenses payable in respect of the acquisition of Compelreach Limited.

Where net assets and goodwill of a subsidiary company are transferred to another subsidiary company at less than fair value, the value of the holding company's investments in those subsidiaries is reallocated so as to transfer any apparent diminution in value of the transferor to the book value of the transferee investment. This has no effect on the total carrying value of the investments in the balance sheet of the parent company. In the opinion of the directors, to record a loss in the parent company in these circumstances, as would otherwise be required by the Companies Act, would not give a true and fair view as it would fail to recognise that there has been no change to the overall value of its investments in those subsidiaries. As a result of this departure, investments in subsidiary undertakings have not been revalued and £1.4m has not been charged to the profit and loss account of the parent company. The Group accounts are not affected by this matter.

Notes to the Accounts

12 Stocks

	Consolidated	
	2002 £'000	2001 £'000
Finished goods and goods for resale	297	257
	297	257

13 Debtors

	Consolidated		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Trade debtors	10,660	14,550	—	—
Amounts receivable under contracts	623	—	—	—
Amounts owed by group undertakings	—	—	9,140	8,446
Other debtors	1,328	1,262	—	33
Prepayments and accrued income	598	1,329	13	200
Corporation tax recoverable	1,302	678	846	678
	14,511	17,819	9,999	9,357

Amounts owed by group undertakings include £2,900,000 (2001: £2,900,000) which are repayable after more than one year.

14 Current asset investments

	Consolidated		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Loan note deposit	3,049	3,786	3,049	3,786
Treasury deposit	682	—	682	—
	3,731	3,786	3,731	3,786

Notes to the Accounts

15 Creditors: amounts falling due within one year

	Consolidated		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Term loans (note 16)	900	900	—	—
Loan notes	3,049	3,786	3,049	3,786
Obligations under finance leases (note 17)	5	52	—	—
Trade creditors	8,882	11,480	44	—
Amounts owed to group undertakings	—	—	77	1,000
Corporation tax	—	808	—	456
Other taxation and social security	1,075	1,220	27	—
Pension contributions	—	1	—	1
Deferred acquisition consideration	—	2,800	—	2,800
Other creditors	2,246	1,236	216	56
Accruals	1,680	3,405	587	1,622
Proposed dividends payable	310	393	310	393
	18,147	26,081	4,310	10,114

16 Creditors: amounts falling due after more than one year

	Consolidated	
	2002 £'000	2001 £'000
Term loans due in one to two years	900	900
Term loans due in two to five years	800	1,700
Obligations under finance leases (note 17)	—	31
	1,700	2,631

The term loan is secured by a fixed and floating charge and bears interest at 0.775% over LIBOR.

Notes to the Accounts

17 Obligations under finance lease agreements

	2002 £'000	Consolidated 2001 £'000
Amounts falling due		
Within one year	6	59
Between one and two years	–	32
	<u>6</u>	<u>91</u>
Less: finance charges relating to future periods	(1)	(8)
	<u>5</u>	<u>83</u>
The total obligation is included in		
Creditors: amounts falling due within one year (note 15)	5	52
Creditors: amounts falling due after more than one year (note 16)	–	31
	<u>5</u>	<u>83</u>

18 Provisions for liabilities and charges

	Consolidated £'000	Company £'000
Balance at 1 July 2001	2,041	2,000
Charged to profit and loss account	717	–
Utilised/released	(1,257)	(1,257)
Balance at 30 June 2002	<u>1,501</u>	<u>743</u>

Provision has been made for rent and other expenses to be incurred on properties which are surplus to group requirements.

Notes to the Accounts

19 Deferred income

	2002 £'000	Consolidated 2001 £'000
Income to be recognised within one year	1,096	970
Deferred income at 30 June	1,096	970

20 Share capital

	Number	2002 Nominal value	Number	2001 Nominal value
Authorised: 5p ordinary shares	40,000,000	2,000,000	40,000,000	2,000,000
Allotted, called-up and fully paid: 5p ordinary shares	31,016,344	1,550,817	30,357,583	1,517,879

Changes in allotted, called up and fully paid ordinary shares:

- During the year, 25,000 shares with an aggregate nominal value of £1,250 were purchased for cancellation: a total consideration of £20,080 was paid.
- 683,761 shares with an aggregate nominal value of £34,188 were issued as Consideration shares to the vendors of Pangaea Limited, for a consideration of £400,000.

As at 30 June 2002 there were 419,210 options issued under an approved executive share option scheme, 851,943 options issued under an unapproved executive share option scheme, and 561,407 options issued under an approved savings related share option scheme. The schemes involve options to buy ordinary shares at prices between 63p and 508p. The options are exercisable over the period 2002-2012.

Notes to the Accounts

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Reserves

Consolidated

	Share premium account £'000	Shares to be issued £'000	Capital reserve £'000	Other reserves £'000	Profit and loss account £'000
Opening reserves	4,951	1,200	1,865	8,277	3,045
Shares issued, less expenses	—	(400)	—	366	—
Released unused	—	(800)	—	—	—
Transfer between reserves	—	—	—	(4,858)	4,858
Repurchase of shares (note 20)	—	—	—	1	(20)
Retained loss for the year	—	—	—	—	(1,452)
Closing reserves	4,951	—	1,865	3,786	6,431

Company

	Share premium account £'000	Shares to be issued £'000	Capital reserve £'000	Other reserves £'000	Profit and loss account £'000
Opening reserves	4,951	1,200	18,393	8,277	199
Shares issued, less expenses	—	(400)	—	366	—
Released unused	—	(800)	—	—	—
Transfer between reserves	—	—	—	(4,858)	4,858
Repurchase of shares (note 20)	—	—	—	1	(20)
Retained loss for the year	—	—	—	—	(1,862)
Closing reserves	4,951	—	18,393	3,786	3,175

Cumulative goodwill of £16,527,000 (2001: £16,527,000) in respect of acquisitions of subsidiary undertakings before 30 June 1998 has been written off against reserves.

22

Reconciliation of movements in shareholders' funds

	Consolidated		Company	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Opening shareholders' funds	20,856	29,755	34,538	35,903
Retained loss for the financial year	(1,452)	(15,463)	(1,862)	(923)
Issue of shares - nominal value	34	—	34	—
Premium on issue of shares	366	3	366	3
Repurchase of shares	(20)	(656)	(20)	(656)
Write back of goodwill on disposal	—	7,006	—	—
Shares to be issued	(1,200)	211	(1,200)	211
Closing shareholders' funds	18,584	20,856	31,856	34,538

Notes to the Accounts

23

Commitments

The annual commitments of the Group under operating leases are as follows:

	2002		2001	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Leases which expire				
Within 1 year	110	99	163	213
In second to fifth year inclusive	361	138	449	182
After 5 years	411	–	160	–
	882	237	772	395

At 30 June 2002 the Group had contracted capital commitments of £352,000 (2001: £305,000). Contract hire agreements for motor vehicles may be cancelled on payment of an early termination charge.

24

Reconciliation of operating (loss)/profit to operating cash flow

	2002 £'000	2001 £'000
Operating (loss)/profit	(1,945)	262
Depreciation charges	6,392	9,140
Goodwill amortisation and impairment	3,206	(774)
Cash impact of bid defence costs	–	(230)
(Profit) on sale of fixed assets	(406)	(623)
(Increase)/decrease in stocks	(40)	693
Decrease in debtors	3,515	13,237
(Decrease) in creditors	(3,624)	(16,343)
Increase/(decrease) in deferred income	126	(1,030)
(Decrease)/increase in provisions	(540)	664
Net cash inflow from operating activities	6,684	4,996

Notes to the Accounts

25

Reconciliation of net cash flow to movement in funds/(debt)

	2002	2001
	£'000	£'000
Decrease in cash in year	(3,399)	(700)
Cash outflow from decrease in lease financing	78	71
Net cash outflow from decrease in debt funding	900	12,900
Cash (inflow)/outflow from (decrease)/increase in liquid resources	(55)	59
Loan notes issued	(46)	(59)
Loan notes redeemed	4,382	—
Change in net funds resulting from cash flow	1,860	12,271
New loan notes	(3,599)	—
Movement in net funds in year	(1,739)	12,271
Opening net funds/(debt)	9,471	(2,800)
Closing net funds	7,732	9,471

26

Analysis of net funds

	At 1 July 2001	Cash flow	Non-cash movements	At 30 June 2002
	£'000	£'000	£'000	£'000
Cash at bank and in hand	13,054	(3,399)	—	9,655
	13,054	(3,399)	—	9,655
Debt due after one year	(2,600)	—	900	(1,700)
Debt due within one year	(900)	900	(900)	(900)
Loan notes	(3,786)	4,336	(3,599)	(3,049)
Finance leases	(83)	78	—	(5)
Current asset investments	3,786	(55)	—	3,731
Total	9,471	1,860	(3,599)	7,732

Financial Instruments

The main purpose of financial instruments is to provide finance for the Group's operations. The Board determines the policies to manage the key financial risks set out below.

The Group does not enter into derivative transactions to hedge interest rate risk or trade in financial instruments.

Interest rate risk

The Group's policy is to minimise interest charges and the Group finances its operations through a mixture of retained earnings, bank and other loans and leasing arrangements. Interest rates are managed using floating rate borrowings linked to LIBOR fixed in advance for one to six months. Overnight rates are used where favourable, including placing money on deposit.

Liquidity risk and financing

The Group's policy is to maintain a combination of short and medium term borrowings with their bankers and other providers of finance. Acquisitions are financed through a mixture of equity, cash reserves and medium term borrowings. Short term flexibility, to support the working capital requirements of the Group, is provided by short term overdraft facilities. Liquidity risk is monitored regularly through cash reports, cash forecasts and budgets.

As permitted by FRS 13, short term debtors and creditors have been excluded from all of the numerical disclosures.

Financial assets

The Group's financial assets consist of cash and treasury deposits, which are placed on money markets for periods of between one day and six months. The profile of these assets, which are all denominated in sterling, is as follows:

	2002 £'000	2001 £'000
Cash	9,655	13,054
Treasury deposits	3,731	3,786
Total	13,386	16,840

Financial liabilities

The interest rate profile of the Group's financial liabilities is as follows:

	2002 £'000	2001 £'000
Sterling - floating rate	5,654	10,169

The floating rate liabilities comprise bank loans, loan notes and finance lease obligations and (for 2001 only) deferred acquisition consideration.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities is as follows:

	Total 2002 £'000	Total 2001 £'000
Within one year	3,954	7,538
Between one and two years	900	931
Between two and five years	800	1,700
Total	5,654	10,169

Fair values of financial assets and financial liabilities

There is no material difference between the book value and fair value of the Group's financial assets and liabilities at each year end.

Notes to the Accounts

Contingent liability

In March 2001 the Company sold its subsidiaries Compelsource PLC, Abtex Systems Limited and Compel IP Limited to Specialist Computer Holdings (SCH) for an initial cash consideration of £14.3 million. A further £2.0 million was retained by SCH, to be paid to the Company after 24 months, subject to any claims by SCH.

Under the terms of the sale agreement, the purchase price was subject to adjustment depending on the value of the net assets transferred to SCH. SCH notified the Company in April 2001 that it believed a reduction in the purchase price of approximately £6.6 million was due to it. The directors believed that this claim was substantially without merit and the matter was referred to an Independent Accountant for determination. The board, however, considered it prudent to make provision against the £2 million retention in the accounts for the year ended 30 June 2001 and continues to believe that this provision is appropriate: if full provision were to be made for the claim, the maximum additional liability would be £4.6 million.

A decision is expected on this matter from the Independent Accountant shortly.

Notice of Annual General Meeting

Notice is hereby given that the twelfth Annual General Meeting of Compel Group PLC will be held at 3.30 pm on 19 November 2002 at the offices of KBC Peel Hunt Limited, 62 Threadneedle Street, London EC2R 8HP for the following purposes:

To consider and, if thought fit, pass the following Resolutions 1 to 6 as ORDINARY RESOLUTIONS and Resolutions 7 and 8 as SPECIAL RESOLUTIONS.

Ordinary Resolutions

Accounts

1. To receive and adopt the accounts for the year ended 30 June 2002 and the reports of the directors and auditors thereon.

Dividend

2. To declare the final dividend in respect of the year ended 30 June 2002.

Directors

To re-elect the following directors who retire in accordance with the Company's Articles of Association:

3. N Davis (note 3)
4. R Clark (note 3)

Auditors

5. That KPMG Audit Plc be and are hereby reappointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the Company at a remuneration to be set by the directors.

Renew Directors' Authority to Allot Shares

6. That the directors be generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to allot, make offers or agreements to allot, or grant the right to subscribe for, or convert other securities into, relevant securities (as defined in the said Section 80) provided that:

- i. such authority shall be limited to an aggregate nominal amount of £516,939 (representing not more than one third of the total share capital in issue as at the date of this notice);
- ii. such authority shall expire at the sooner of the close of the following Annual General Meeting or the expiry of fifteen months from the date of the passing of the Resolution; and
- iii. the Company may before such expiry make such an offer or agreement which would, or might, require relevant securities to be allotted after that expiry.

Special Resolutions

Disapplication of Statutory Pre-emption Rights

7. That the directors be empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94 of the Act) in the following cases, as if sub-section 89 (1) of the Act did not apply:

- i. to the allotment of equity securities whereby there will be an offer of all such securities, whether made by the Company or some other person, open for acceptance for a period fixed or approved by the directors, to holders of Ordinary Shares on the Register on a fixed record date in proportion to their then holdings of such shares (but subject to such exclusion or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or to deal with

Notice of Annual General Meeting

- any legal or practical problems or requirements of the laws of, or any recognised regulatory body or stock exchange in, any territory); and
- ii. to the allotment of equity securities up to an aggregate nominal amount of £77,541 (representing not more than 5% of the issued ordinary share capital of the Company as at the date of this notice).

But provided that:

- a. the power shall expire at the sooner of the close of the following Annual General Meeting and the expiry of fifteen months following the date of passing of the resolution; and
- b. the Company may before such expiry make an offer or agreement thereunder which would or might require equity securities to be allotted after its expiry.

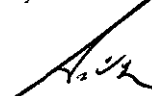
Authorise the Purchase in the Stock Market of up to 5% of the Company's Issued Share Capital

8. That pursuant to Article 4.1 of the Articles of Association of the Company and subject to the provisions of the Companies Act 1985 ("the Act") the Company be authorised to purchase by market purchase (as defined by Section 163 of the Act) up to 1,550,667 Ordinary Shares of 5p each in its own capital subject to the following:

- i. the purchase price for any shares so purchased shall not exceed a sum equal to one hundred and five per cent of the average of the middle market quotation for the five business days preceding the day of purchase (as derived from The Stock Exchange Daily Official List) and shall not be less than the nominal value of the shares;
- ii. the authority shall expire on the earlier of the close of the next Annual General Meeting or the expiry of fifteen months from the date of the passing of the Resolution;
- iii. the Company may make a contract for purchase which would, or might, be executed wholly or partly after the expiry of the authority;

- iv. any shares purchased pursuant to the authority may be selected by the directors in any manner as they from time to time deem appropriate; and
- v. save as provided the authority shall be general and unconditional.

By order of the Board



A J Lee

Secretary

8 October 2002

NOTES:

1. A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and, on a poll, vote on his or her behalf. A proxy need not be a member of the Company. A proxy form for use in connection with the meeting is enclosed. Signed forms of proxy together with the power of attorney or authority (if any) under which they are signed must be lodged with the Company's registrars, Lloyds TSB Registrars, The Causeway, Worthing, West Sussex, BN99 6ZL no later than 48 hours before the time fixed for the meeting. Completion of a form of proxy will not preclude a member from attending the meeting and voting in person.
2. The Register of Directors' Shareholdings and copies of all directors' service contracts are available for inspection at the registered office of the Company during normal business hours on any weekday, except Saturdays and Public Holidays, and will be available at the place of the meeting from 15 minutes prior to the meeting until its conclusion.
3. Biographical details of the directors are contained on page 9 of the Annual Report and Accounts.

Financial Calendar

Record Date

27 September 2002

Annual General Meeting

19 November 2002

Payment of Final Dividend

20 November 2002

Interim Results Announcement

February 2003

Payment of Interim Dividend

May 2003

Final Results Announcement

September 2003

Record Since Flotation

	1995 £'000	1996 £'000	1997 £'000	1998 £'000	1999 £'000	2000 £'000	2001 £'000	2002 £'000
Turnover	70,019	85,620	111,792	210,003	293,750	288,015	235,731	63,892
Gross profit	11,970	14,773	21,729	39,464	53,844	46,458	34,912	16,183
Operating profit – before goodwill	2,898	3,449	5,307	9,742	6,571	(2,815)	(512)	1,261
Operating profit/(loss)	2,898	3,449	5,307	9,742	13,829	2,987	262	(1,945)
Profit/(loss) before taxation	2,684	3,235	5,057	9,021	12,679	2,080	(13,367)	(1,691)
Profit/(loss) after taxation	1,744	2,101	3,263	6,044	10,602	2,620	(14,571)	(985)
Net assets	4,071	5,475	8,732	12,995	26,468	29,755	20,856	18,584
Earnings/(loss) per share	11.4p	13.1p	16.4p	21.8p	36.2p	8.6p	(47.0p)	(3.2p)
Earnings/(loss) per share before goodwill charges	11.4p	13.1p	16.4p	21.8p	11.4p	(10.4p)	(49.4p)	7.2p

Earnings per share have been adjusted in respect of the rights issue in 1997.

Company Information

Directors

Sir Michael Bett ■
Chairman

Ronald Clark ♦
Deputy Chairman

Neville Davis
Chief Executive

David P Frankling
Chief Operating Officer

Andrew J Lee
Finance Director

Richard L Measelle ■

- Independent Non-Executive
- ♦ Senior Independent Non-Executive

Secretary

Andrew J Lee

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6 Meadway Court
Rutherford Close
Stevenage
Hertfordshire SG1 2EF

Registered Number

2545945

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Bankers

Lloyds Bank Plc
Corporate & Institutional Banking
PO Box 787
St Georges House
6-8 Eastcheap
London EC3M 1LL

Solicitors

Laytons
Carmelite
50 Victoria Embankment
London EC4Y 0LS

Financial Advisers

Close Brothers Corporate Finance
10 Crown Place
Clifton Street
London EC2A 4FT

Stockbrokers

KBC Peel Hunt Limited
62 Threadneedle Street
London EC2R 8HP

Registrars

Lloyds TSB Registrars
The Causeway
Worthing
West Sussex BN99 6DA

Group Information

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Operational Centres

Scotland - Livingston
North West - Warrington
Midlands - Birmingham
South - Guildford
Hungerford
Stevenage
London - Wembley

Company

COMPEL

IT solutions

Divisions

COMPEL^{SOLVE}

Enterprise solutions

HAMILTON RENTALS

Rental solutions