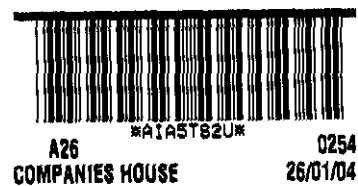


RFL COMMUNICATIONS PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
30 JUNE 2003**

COMPANY NUMBER:3208975



RFL COMMUNICATIONS PLC

COMPANY INFORMATION

DIRECTORS

B Brain
P Whitehead
C Crompton
P Clapton

SECRETARY

K Broad

COMPANY NUMBER

3208975

REGISTERED OFFICE

2 Temple Back East
Temple Quay
Bristol
BS1 6EG

AUDITORS

Bentley Jennison
Chartered Accountants & Registered Auditors
Howard House
Queens Avenue
Clifton
Bristol
BS8 1QT

RFL COMMUNICATIONS PLC

DIRECTORS' REPORT For the year ended 30 June 2003

The directors present their report and the financial statements for the year ended 30 June 2003.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that 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 company will continue in business.

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

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS

The principal activity and focus of the company remains the supply of communications products and systems to the utility markets.

During the course of the year the company moved to a new purpose built building. This provides a better working environment for staff with facilities better able to support future expansion plans.

Sales of RFL Electronics Inc. products were lower than in previous years as a consequence of restructuring and project delays within the UK power industry. The company were hence more reliant on the provision of engineering services and whilst this had an impact on turnover we remained profitable.

In summary the company has had a successful year, increasing its experience and the competence of staff through the supply of an extended range of services and products.

The board would like to thank both staff and investors for their continued support throughout the year.

The profit for the year, after taxation, amounted to £30,593 (2002 - £41,753) .

The directors do not recommend the payment of a dividend. (2002 - £10,400) .

DIRECTORS

The directors who served during the year and their beneficial interests in the company's issued share capital were:

	£1 ordinary shares of £1 each	
	<u>30/6/03</u>	<u>1/7/02</u>
B Brain	44,334	43,334
P Whitehead	16,600	15,600
C Crompton	15,600	15,600
P Clapton	7,450	5,200

During the year share options have been granted to P Clapton for the purchase of a further 500 shares, within a 12 month period.

RFL COMMUNICATIONS PLC

DIRECTORS' REPORT For the year ended 30 June 2003

COMPANY'S POLICY FOR PAYMENT OF CREDITORS

It is the company policy to settle all debts with its creditors on a timely basis, taking account of the credit period given by each supplier. The trade creditor days at the balance sheet date were 34.

PURCHASE OF OWN SHARES

4,400 ordinary £1 shares were repurchased by the company during the year from a minority shareholder who wished to dispose of his shareholding. Shares were offered to existing shareholders in accordance with the Pre-emption procedure specified in the company's Articles of Association and the company purchased the balance of shares not taken up as the directors did not wish to diversify the shareholder profile. These shares represent 2.1% of the total shares previously in issue. The consideration for these shares was £7,700.

FUTURE DEVELOPMENTS

RFL has identified and intends to pursue several emerging opportunities:

Customer Services

The engineering services side of the business has been strengthened to include several new offerings including 24Hour, 7 Day a week emergency customer support.

As the system side of the business has expanded this brings opportunities for involvement in installation, maintenance and support. Through careful co-ordination and management this side of the business has and will continue to expand.

Products

The strategy of finding new product suppliers continues and it is the intention to introduce several new product lines to complement existing relationships with RFL Electronics, Keymile and Westronics.

RESEARCH AND DEVELOPMENT ACTIVITIES

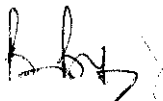
In order to meet the development objectives RFL will invest in minor re-design/modification works to standard off the shelf products to meet the demands of utility customers.

This will include the hardening of the Keymile multiplexer and its type approval to utility specifications and the development of an out of band VF filter.

AUDITORS

The auditors, Bentley Jennison, will be proposed for reappointment in accordance with section 385 of the Companies Act 1985.

This report was approved by the board on *22 December 2003* and signed on its behalf.



B Brain
Chairman

RFL COMMUNICATIONS PLC

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF RFL COMMUNICATIONS PLC

We have audited the financial statements of RFL Communications Plc for the year ended 30 June 2003 set out on pages 4 to 15. These financial statements have been prepared under the historical cost convention and the accounting policies set out on page 7.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's 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 the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of 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 if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 30 June 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Bentley Jennison

Chartered Accountants
Registered Auditors

7 January 2004

Howard House
Queens Avenue
Clifton
Bristol
BS8 1QT

RFL COMMUNICATIONS PLC
PROFIT AND LOSS ACCOUNT
For the year ended 30 June 2003

	Note	2003 £	2002 £
TURNOVER	1, 2	1,472,214	2,009,217
Cost of sales		<u>(965,992)</u>	<u>(1,367,078)</u>
GROSS PROFIT		506,222	642,139
Administrative expenses		<u>(469,314)</u>	<u>(595,742)</u>
OPERATING PROFIT	3	36,908	46,397
Interest receivable		<u>1,271</u>	<u>5,821</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		38,179	52,218
TAX ON PROFIT ON ORDINARY ACTIVITIES	6	<u>(7,586)</u>	<u>(10,465)</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		30,593	41,753
DIVIDENDS - On equity shares	7	<u>-</u>	<u>(10,400)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	14	<u>30,593</u>	<u>31,353</u>

All amounts relate to continuing operations.

There were no recognised gains and losses for 2003 or 2002 other than those included in the profit and loss account.

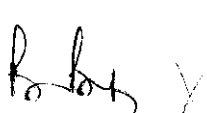
The notes on pages 7 to 15 form part of these financial statements.

RFL COMMUNICATIONS PLC

BALANCE SHEET As at 30 June 2003

	Note	2003 £	2002 £
FIXED ASSETS			
Tangible fixed assets	8	45,233	27,460
CURRENT ASSETS			
Stocks	9	38,990	89,461
Debtors	10	359,675	305,626
Cash at bank		215,424	329,023
		<u>614,089</u>	<u>724,110</u>
CREDITORS: amounts falling due within one year	11	<u>(166,820)</u>	<u>(280,306)</u>
NET CURRENT ASSETS		<u>447,269</u>	<u>443,804</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>492,502</u>	<u>471,264</u>
PROVISIONS FOR LIABILITIES AND CHARGES			
Other provisions	12	<u>(4,644)</u>	<u>(6,299)</u>
NET ASSETS		<u><u>487,858</u></u>	<u><u>464,965</u></u>
CAPITAL AND RESERVES			
Called up share capital	13	203,600	208,000
Capital redemption reserve	14	4,400	-
Profit and loss account	14	279,858	256,965
SHAREHOLDERS' FUNDS - All Equity	15	<u><u>487,858</u></u>	<u><u>464,965</u></u>

The financial statements were approved by the board on 22nd December 2003 and signed on its behalf.


B Brain
Chairman

The notes on pages 7 to 15 form part of these financial statements.

RFL COMMUNICATIONS PLC

CASH FLOW STATEMENT
For the year ended 30 June 2003

	Note	2003 £	2002 £
Net cash flow from operating activities	16	(47,451)	249,734
Returns on investments and servicing of finance	17	1,271	5,821
Taxation		(8,339)	(15,919)
Capital expenditure and financial investment	17	(40,980)	(29,109)
Equity dividends paid		(10,400)	(20,800)
CASH (OUTFLOW)/INFLOW BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		(105,899)	189,727
Management of liquid resources	17	170,000	(45,000)
Financing	17	(7,700)	-
INCREASE IN CASH IN THE YEAR		56,401	144,727

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS (NOTE 18)
For the year ended 30 June 2003

	2003 £	2002 £
Increase in cash in the year	56,401	144,727
Cash (inflow)/outflow from (increase)/decrease in liquid resources	(170,000)	45,000
MOVEMENT IN NET FUNDS IN THE YEAR	(113,599)	189,727
Net funds at 1 July 2002	329,023	139,296
NET FUNDS AT 30 JUNE 2003	215,424	329,023

The notes on pages 7 to 15 form part of these financial statements.

RFL COMMUNICATIONS PLC

NOTES TO THE BALANCE SHEET
For the year ended 30 June 2003

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

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

1.2 Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, exclusive of Value Added Tax and trade discounts.

1.3 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Leasehold improvements	-	over the life of the lease
Plant and equipment	-	over 3 or 4 years straight line
Motor vehicles	-	33 1/3% straight line
Fixtures & Fittings	-	15% reducing balance

1.4 Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to the profit and loss account on the straight line basis over the lease term.

1.5 Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks. Costs include all costs directly attributable to the job.

1.6 Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

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

1.7 Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate ruling on the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

1.8 Research and development

Research and development expenditure that is capitalised is included within intangible fixed assets and amortised in line with the revenue source that the asset subsequently generates. Expenditure on research and development that is not capitalised is charged to the profit and loss account in the year to which it relates. Uninvoiced research and development costs to be fully funded by customers are carried forward as work as progress.

1.9 Pensions

The company operates a defined contribution pension scheme consisting of a group of individual personal pension schemes to which RFL contributes a fixed percentage of gross salary. The pension charge represents the amounts payable by the company to the fund in respect of the year.

RFL COMMUNICATIONS PLC**NOTES TO THE BALANCE SHEET**
For the year ended 30 June 2003

2. TURNOVER

The whole of the turnover is attributable to the principal activity of the company.

A geographical analysis of turnover is as follows:

	2003 £	2002 £
United Kingdom	868,170	995,759
Europe	406,246	805,267
Rest of the World	197,798	208,191
	<u>1,472,214</u>	<u>2,009,217</u>

3. OPERATING PROFIT

The operating profit is stated after charging:

	2003 £	2002 £
Depreciation of tangible fixed assets:		
- owned by the company	20,455	16,580
Auditors' remuneration	6,700	7,300
Operating lease rentals:		
- plant and machinery	12,820	24,503
Difference on foreign exchange	2,064	2,378
Research and development expenditure written off	3,423	43,190
	<u> </u>	<u> </u>

4. STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	2003 £	2002 £
Wages and salaries	340,051	316,080
Social security costs	20,452	25,127
Other pension costs	7,653	9,992
	<u>368,156</u>	<u>351,199</u>

The average monthly number of employees, including directors, during the year was as follows:

	2003	2002
Sales and consultancy	2	4
Administration	8	6
Technical	5	4
	<u>15</u>	<u>14</u>

RFL COMMUNICATIONS PLC

NOTES TO THE BALANCE SHEET
For the year ended 30 June 2003

5. DIRECTORS' REMUNERATION

	2003 £	2002 £
Emoluments	77,711	66,747
Company pension contributions to money purchase pension schemes	3,250	2,756

During the year retirement benefits were accruing to 1 director (2002 - 1) in respect of money purchase pension schemes.

6. TAXATION

	2003 £	2002 £
Analysis of tax charge in year		
UK corporation tax on profits of the year	7,636	10,514
Adjustments in respect of prior periods	(50)	(49)
Tax on profit on ordinary activities	7,586	10,465

Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (19%). The differences are explained below:

	2003 £	2002 £
Profit on ordinary activities before tax	38,179	52,218
Profit on ordinary activities multiplied by the relevant standard rate of corporation tax in the UK of 19% (2002 - 19%)	7,254	9,921
Effects of:		
Expenses not deductible for tax purposes	1,502	1,859
Capital allowances for period in excess of depreciation	(747)	(1,266)
Small companies marginal relief	(373)	-
Adjustments to tax charge in respect of prior periods	(50)	(49)
Current tax charge for year (see note above)	7,586	10,465

There were no factors that may affect future tax charges.

RFL COMMUNICATIONS PLC

NOTES TO THE BALANCE SHEET
For the year ended 30 June 2003

7. DIVIDENDS

	2003 £	2002 £
On equity shares		
Total dividends proposed	-	10,400

8. TANGIBLE FIXED ASSETS

	Leasehold improvements £	Plant and equipment £	Motor vehicles £	Fixtures & fittings £	Total £
Cost					
At 1 July 2002	10,722	63,964	-	9,116	83,802
Additions	2,833	23,135	7,423	7,589	40,980
Disposals	(10,722)	(16,159)	-	(5,835)	(32,716)
At 30 June 2003	2,833	70,940	7,423	10,870	92,066
Depreciation					
At 1 July 2002	10,722	41,181	-	4,439	56,342
Charge for the year	169	15,973	2,474	1,839	20,455
On disposals	(10,722)	(15,910)	-	(3,332)	(29,964)
At 30 June 2003	169	41,244	2,474	2,946	46,833
Net book value					
At 30 June 2003	2,664	29,696	4,949	7,924	45,233
At 30 June 2002	-	22,783	-	4,677	27,460

9. STOCKS

	2003 £	2002 £
Work in progress	22,587	70,577
Finished goods and goods for resale	16,403	18,884
	38,990	89,461

The difference between purchase price or production cost of stocks and their replacement cost is not material.

RFL COMMUNICATIONS PLC

NOTES TO THE BALANCE SHEET

For the year ended 30 June 2003

10. DEBTORS

	2003	2002
	£	£
Due within one year		
Trade debtors	346,455	288,550
Prepayments and accrued income	13,220	17,076
	359,675	305,626

11. CREDITORS:

Amounts falling due within one year

	2003	2002
	£	£
Trade creditors	74,405	159,444
Corporation tax	7,636	8,389
Social security and other taxes	39,452	35,157
Proposed dividend	-	10,400
Other creditors	20	-
Accruals and deferred income	45,307	66,916
	166,820	280,306

The company's bankers hold a fixed charge over book debt and a floating charge over all other assets, to secure any borrowing that might arise.

12. PROVISIONS

	Warranty provision
	£
At 1 July 2002	6,299
Additions	349
Amounts used	(2,004)
At 30 June 2003	4,644

Warranty provision

The provision has been made for future costs of employee travel and accommodation on projects under warranty. These costs are expected to be incurred within twelve months of the balance sheet date and have been calculated based on an assessment of work identified as being required on sales, under warranty, made before the year end.

RFL COMMUNICATIONS PLC

NOTES TO THE BALANCE SHEET
For the year ended 30 June 2003

13. SHARE CAPITAL

	2003 £	2002 £
Authorised		
500,000 £1 ordinary shares of £1 each	500,000	500,000
100,000 £1 'A' ordinary shares of £1 each	100,000	100,000
	<u>600,000</u>	<u>600,000</u>
Allotted, called up and fully paid		
195,600 £1 ordinary shares of £1 each	195,600	200,000
8,000 £1 'A' ordinary shares of £1 each	8,000	8,000
	<u>203,600</u>	<u>208,000</u>

The £1 'A' ordinary shares rank equally with the £1 ordinary shares.

14. RESERVES

Profit and loss account	£
At 1 July 2002	256,965
Profit retained for the year	30,593
Purchase of share capital	(3,300)
Transfer to capital redemption reserve	(4,400)
	<u>279,858</u>
At 30 June 2003	
Capital redemption reserve	£
At 1 July 2002	-
Transfer on purchase of share capital	4,400
	<u>4,400</u>
At 30 June 2003	

RFL COMMUNICATIONS PLC

NOTES TO THE BALANCE SHEET
For the year ended 30 June 2003

15. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2003 £	2002 £
Profit for the year	30,593	41,753
Dividends	-	(10,400)
	<u>30,593</u>	<u>31,353</u>
Shares redeemed/cancelled during the year	(7,700)	-
	<u>22,893</u>	<u>31,353</u>
Opening shareholders' funds	464,965	433,612
Closing shareholders' funds	<u>487,858</u>	<u>464,965</u>

16. NET CASH FLOW FROM OPERATING ACTIVITIES

	2003 £	2002 £
Operating profit	36,908	46,397
Depreciation of tangible fixed assets	20,455	16,580
Loss on disposal of tangible fixed assets	2,752	-
Decrease/(increase) in stocks	50,471	(18,851)
(Increase)/decrease in debtors	(54,049)	289,640
Decrease in creditors	(102,333)	(80,206)
Decrease in provisions	(1,655)	(3,826)
NET CASH (OUTFLOW)/INFLOW FROM OPERATIONS	<u>(47,451)</u>	<u>249,734</u>

17. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2003 £	2002 £
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest received	<u>1,271</u>	<u>5,821</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Purchase of tangible fixed assets	<u>(40,980)</u>	<u>(29,109)</u>

RFL COMMUNICATIONS PLC

NOTES TO THE BALANCE SHEET
For the year ended 30 June 2003

	2003 £	2002 £
MANAGEMENT OF LIQUID RESOURCES		
Cash withdrawn from/(placed on) short-term deposit	<u>170,000</u>	<u>(45,000)</u>
	2003 £	2002 £
FINANCING		
Purchase of own shares	<u>(7,700)</u>	<u>-</u>

18. ANALYSIS OF CHANGES IN NET DEBT

	1 July 2002 £	Cash flow £	Other non-cash changes £	30 June 2003 £
Cash at bank and in hand:	329,023	(113,599)	-	215,424
Less: deposits treated as liquid resources	(170,000)	170,000	-	-
	<u>159,023</u>	<u>56,401</u>	<u>-</u>	<u>215,424</u>
LIQUID RESOURCES :				
Deposits included in cash	170,000	(170,000)	-	-
DEBT :				
Finance leases	-	-	-	-
NET FUNDS	<u>329,023</u>	<u>(113,599)</u>	<u>-</u>	<u>215,424</u>

19. CONTINGENT LIABILITIES

The company has contingent liabilities in respect of guarantees for £25,000 in favour of H M Customs & Excise, £9,374.71 in favour of Emirates Trading Agency, £6,818.18 in favour of Samsung Corporation, and £12,704.24 in favour of ABB A/S.

20. PENSION COMMITMENTS

The company operates a Group Personal Pension scheme to which RFL Communications Plc contributes a fixed percentage of gross salary. The pension cost charge represents contributions payable by the company to the fund and amounted to £12,828 (2002 - £13,034). No contributions were payable to the fund at the balance sheet date.

RFL COMMUNICATIONS PLC

NOTES TO THE BALANCE SHEET
For the year ended 30 June 2003

21. OPERATING LEASE COMMITMENTS

At 30 June 2003 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	2003	2002	2003	2002
	£	£	£	£
Expiry date:				
Within 1 year	-	-	-	2,577
Between 2 and 5 years	-	1,963	1,963	1,963
After more than 5 years	47,000	-	-	-
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

22. TRANSACTIONS WITH DIRECTORS

During the year the company was charged consultancy fees of £47,064 calculated on an arms length basis, by C S Crompton, a business owned by C Crompton, a director of RFL Communications Plc.