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COMPANY

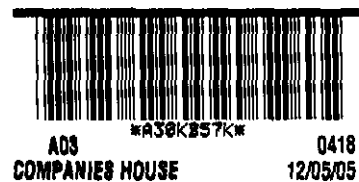
NUMBER: 4075893

Covion Limited

Report and Financial Statements

Year Ended

31 December 2004



BDO

BDO Stoy Hayward
Chartered Accountants

Annual report and financial statements for the year ended 31 December 2004

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Directors

David Steventon
Frank Rodriguez
Sam Samuels
Ethan Sutaria

Secretary and registered office

Sam Samuels, Kings Wharf, 20-30 Kings Road, Reading, RG1 3EX

Company number

4075893

Auditors

BDO Stoy Hayward LLP, Kings Wharf, 20-30 Kings Road, Reading, RG1 3EX

Report of the directors for the year ended 31 December 2004

The directors present their report together with the audited financial statements for the year ended 31 December 2004.

Results and dividends

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

Principal activities, review of business and future developments

The principal activity of the company is the management and supply of Facilities Infrastructure Services which includes Facilities Management activities.

Managing director's statement

I am delighted to inform you that in the year ending 31 December 2004 the Company has again demonstrated strong growth, with a Turnover of £10,297,096, producing a Net Profit before Interest and Tax of £310,991. Compared with the 2003 results this represents a growth in Turnover of 52% and EBIT of 189%. This means that the annualised turnover of the Company is now in excess of £16 million.

The average compound growth of the Company over the last four years is 332%, which makes it one of the fastest growing Company's in the country. In fact a survey carried out by BDO Stoy Hayward on behalf of the Business Magazine has determined that Covion is in fact the fastest growing young Company in the Thames Valley.

The Company has continued to maintain its focus in the private sector, with particular emphasis on providing Facilities Infrastructure Services (FIS) for Manufacturing Facilities and Corporate Business Centres. As a result, during the year, the Company has been awarded major contracts with blue chip customers including Sara Lee, Anglian Windows and LogicaCMG. It has also been awarded its largest contract to date, which is worth £25 million over the next five years. The Company is steadily increasing its capability to operate highly technical services and is pioneering condition based maintenance technology. It is also forming joint ventures to pursue IT and communications services with both existing and new customers. This is in line with the strategy set out in last years report.

The Company was the recipient of the first ever Quality Managed Facility Award for its FIS Operation at Belgrave House, one of the most prestigious new offices blocks in London, jointly owned by Grosvenor Estates and JER Real Estate Advisors (UK) Ltd. This award has been developed by the Centre for Facilities Management at Salford University and was awarded after exhaustive auditing designed to ensure that a world in class service is being provided to the customer.

Significant investment has been made in systems and processes including a web enabled management information system, a finance system and the development of the CFIS system. This will enable our managers and service teams to access real time financial, management information and increase the controls within the business and enable them to deliver sustained quality services to customers.

Once again we have a record number of opportunities in the business development pipeline, which are being progressed. These opportunities reflect the ability of the Company to win and operate larger and more technically complex contracts. These are selected carefully to enable us to phase-in the new operations professionally and with the focus required to ensure long term customer satisfaction.

The first tranche of options, under the Company's Share Option Scheme was made to key members of the management team. This demonstrates the Company's commitment to its managers and will enable them to share in the future prosperity of the Company.

Report of the directors for the year ended 31 December 2004 (Continued)

We recognise that the development of our people is important to the future of the company. Last year I announced the launch of an on-line training programme for our FIS managers. I am pleased to inform you that the first group of our FIS managers have successfully undertaken the course and passed the final examination, which was carried out by the Centre for Facilities Management at Salford University. This again demonstrates our commitment to developing the best people.

In November, the Covion management team, working with Venture Capital Trusts and Banks, made an offer to acquire the share capital of the Company. This offer, which was provisionally accepted by the board will ultimately result in a wider share ownership by the team who will continue to drive the business forward.

The Company was saddened to lose its Chairman David Dees, who was killed in a tragic accident and one of our Operations Directors, Barry Lewis, who died after a short illness. Both will be sadly missed. I am, however, pleased that Sam Samuels has stepped up to become the Chairman. Also the management team has been strengthened by the appointment of Alan Bruter as an Operations Director. Alan has a tremendous track record within the facilities and support service industries and will help in the transition to more technical services.

I would like, once again, to pay tribute to the hard work and dedication of the entire Covion team. Their commitment has been outstanding during the last year, which has enabled the Company to make substantial progress.

Going forward, we remain focused on developing innovative and practical FIS operations, which will enable us to achieve our ambitious growth targets. This I believe will result in record growth again in 2005.

Charitable and political contributions

During the year the company made charitable contributions of £1,226. There were no political contributions.

Employment of disabled persons

The company is committed to a policy of recruitment and promotion on the basis of aptitude and ability without discrimination of any kind. Management actively pursues both the employment of disabled persons whenever a suitable vacancy arises and the continued employment and retraining of employees who become disabled whilst employed by the company. Particular attention is given to the training, career development and promotion of disabled employees with a view to encouraging them to play an active role in the development of the company.

Employee involvement

The flow of information to staff has been maintained by our staff newspaper. Members of the management team regularly visit locations and discuss matters of current interest and concern to the business with members of staff.

Report of the directors for the year ended 31 December 2004 (Continued)

Directors

The directors of the company during the year and their interests in the ordinary share capital of the company were:

	Ordinary shares	
	of 1p each 31 December 2004	of £1 each 1 January 2004
David Steventon	17,500	175
Frank Rodriguez	12,500	125
David Dees (resigned 5 June 2004)	13,200	132
Sam Samuels	11,000	110
Ethan Sutaria	-	-
Anthony Lawless (resigned 31 May 2004)	1,000	10

Directors' responsibilities

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Auditors

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

On behalf of the board

David Steventon



Managing Director

Date: 11 May 2005

Report of the independent auditors

To the shareholders of Covion Limited

We have audited the financial statements of Covion Limited for the year ended 31 December 2004 on pages 6 to 17 which have been prepared under the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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

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

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

Basis of audit opinion

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

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

Report of the independent auditors (Continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

BDO Stoy Hayward LLP

BDO STOY HAYWARD LLP

*Chartered Accountants
and Registered Auditors*
Reading

Date: 11 May 2005

Profit and loss account for the year ended 31 December 2004

	Note	2004 £	2003 £
Turnover	2	10,297,096	6,751,900
Cost of sales		8,765,904	5,947,524
		<hr/>	<hr/>
Gross profit		1,531,192	804,376
Administrative expenses		1,220,201	697,836
		<hr/>	<hr/>
Operating profit	3	310,991	106,540
Other interest receivable and similar income		21,784	10,600
Interest payable and similar charges	6	(3,731)	-
		<hr/>	<hr/>
Profit on ordinary activities before taxation		329,044	117,140
Taxation on profit on ordinary activities	7	(68,027)	21,581
		<hr/>	<hr/>
Profit on ordinary activities after taxation		261,017	138,721
Accumulated loss brought forward		(133,130)	(271,851)
		<hr/>	<hr/>
Retained profit/(accumulated loss) carried forward		127,887	(133,130)
		<hr/>	<hr/>

All amounts relate to continuing activities.

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

Covion Limited

Balance sheet at 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Fixed assets					
Tangible assets	8		130,179		92,001
Current assets					
Debtors	9	2,544,640		1,320,742	
Cash at bank and in hand		1,488,624		886,056	
		<u>4,033,264</u>		<u>2,206,798</u>	
Creditors: amounts falling due within one year	10	<u>3,397,242</u>		<u>1,793,459</u>	
Net current assets			<u>636,022</u>		<u>413,339</u>
Total assets less current liabilities			<u>766,201</u>		<u>505,340</u>
Creditors: amounts falling due after more than one year	11		<u>37,999</u>		<u>38,160</u>
			<u>728,202</u>		<u>467,180</u>
Capital and reserves					
Called up share capital	13		975		970
Share premium account			599,340		599,340
Profit and loss account			127,887		(133,130)
Equity shareholders' funds	14		<u>728,202</u>		<u>467,180</u>

The financial statements were approved by the Board on 11 May 2005.

David Steventon
Managing Director



The notes on pages 9 to 17 form part of these financial statements.

Covion Limited

Cash flow statement for the year ended 31 December 2004

	Note	2004 £	2004 £	2003 £	2003 £
Net cash inflow from operating activities	16		666,576		507,227
Returns on investments and servicing of finance					
Interest received		21,784		10,600	
Interest paid: hire purchase		(3,731)		-	
Net cash inflow from returns on investments and servicing of finance			18,053		10,600
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets			(47,876)		(31,922)
Cash inflow before financing			636,753		485,905
Financing					
Capital element of finance leases repaid			(34,185)		(12,458)
Increase in cash	17		602,568		473,447

The notes on pages 9 to 17 form part of these financial statements.

1 Accounting policies

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

The following principal accounting policies have been applied:

Turnover

Turnover represents sales to external customers at invoiced amounts less value added tax or local taxes on sales.

Depreciation

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

Plant & machinery	- 20% - 33% Straight line
Fixtures and fittings	- 20% Straight line
Computer and office equipment	- 50 % Straight line

Leased assets

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

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

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

Pension costs

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

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date.

Deferred tax balances are not discounted.

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom.

3 Operating profit

	2004 £	2003 £
This is arrived at after charging:		
Depreciation of tangible fixed assets	58,098	16,868
Hire of other assets - operating leases	95,204	24,447
Audit services	11,000	10,000
Non-audit services	2,750	10,000
	<u> </u>	<u> </u>

4 Employees

Staff costs (including directors) consist of:

	2004 £	2003 £
Wages and salaries	3,914,897	2,430,424
Social security costs	342,060	215,895
Other pension costs	24,695	7,851
	<u> </u>	<u> </u>
	4,281,652	2,654,170
	<u> </u>	<u> </u>

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

	2004 Number	2003 Number
Management	30	17
Admin	18	10
Operations	306	203
	<u> </u>	<u> </u>
	354	230
	<u> </u>	<u> </u>

The salary costs for site based employees are included in cost of sales.

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

5 Directors' remuneration

	2004 £	2003 £
Directors' emoluments	250,895	243,693

The total amount payable to the highest paid director in respect of emoluments was £107,778 (2003 - £94,077).

6 Interest payable and similar charges

	2004 £	2003 £
Finance leases and hire purchase contracts	3,731	-

7 Taxation on profit on ordinary activities

	2004 £	2003 £
<i>UK Corporation tax</i>		
Current tax on profits of the year	46,363	83
<i>Deferred tax</i>		
Origination and reversal of timing differences	21,664	(21,664)
Taxation on profit on ordinary activities	68,027	(21,581)

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

7 Taxation on profit on ordinary activities (continued)

The tax assessed for the period is lower than the standard rate of corporation tax in the UK. The differences are explained below:

	2004 £	2003 £
Profit on ordinary activities before tax	329,044	117,140
Profit on ordinary activities at the standard rate of corporation tax in the UK of 19% (2003 - 19%)	62,518	22,257
Effect of:		
Expenses not deductible for tax purposes	3,570	4,407
Capital allowances for period in excess of depreciation	(1,985)	2,386
Utilisation of tax losses	(16,082)	(30,090)
Other short term timing differences	(1,658)	3,488
Income not taxable	-	(482)
Marginal relief	-	(1,883)
Current tax charge for period	46,363	83

A deferred tax asset of £Nil (2003 - £21,664) has been recognised in the financial statements - see note 12.

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

8 Tangible fixed assets

	Plant and machinery £	Fixtures and fittings £	Office equipment £	Total £
<i>Cost</i>				
At 1 January 2004	79,972	11,564	32,004	123,540
Additions	72,121	6,350	17,805	96,276
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	152,093	17,914	49,809	219,816
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 1 January 2004	10,727	307	20,505	31,539
Provided for the year	41,086	3,583	13,429	58,098
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	51,813	3,890	33,934	89,637
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2004	100,280	14,024	15,875	130,179
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	69,245	11,257	11,499	92,001
	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of plant and machinery includes an amount of £74,265 (2003 - 56,987) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge on these assets for the year was £40,485 (2003 - 9,363).

9 Debtors

	2004 £	2003 £
Trade debtors	2,437,179	1,266,016
Other debtors	8,882	7,396
Prepayments and accrued income	98,579	25,666
Deferred taxation (see note 12)	-	21,664
	<hr/>	<hr/>
	2,544,640	1,320,742
	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year.

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

10 Creditors: amounts falling due within one year

	2004 £	2003 £
Trade creditors	2,098,013	1,302,265
Corporation tax	46,446	83
Other taxation and social security	428,665	376,869
Obligations under finance lease and hire purchase contracts	30,108	15,732
Other creditors	17,733	22,181
Accruals and deferred income	776,277	76,329
	<u>3,397,242</u>	<u>1,793,459</u>

11 Creditors: amounts falling due after more than one year

	2004 £	2003 £
Obligations under finance lease and hire purchase contracts	37,999	38,160
	<u>37,999</u>	<u>38,160</u>

Maturity of debt:

	Finance leases 2004 £	Finance leases 2003 £
In one year or less, or on demand	30,108	15,732
	<u>30,108</u>	<u>15,732</u>
In more than one year but not more than two years	24,711	15,732
In more than two years but not more than five years	13,288	22,428
	<u>37,999</u>	<u>38,160</u>

12 Provision for liabilities and charges

	Deferred taxation £	
Transferred from debtors		(21,664)
Utilised in year		21,664
		<hr/>
At 31 December 2004		-
		<hr/>
<i>Deferred taxation</i>		
	2004 £	2003 £
Accelerated capital allowances	-	(3,626)
Sundry timing differences	-	(3,489)
	<hr/>	<hr/>
	-	(7,115)
Unutilised tax losses	-	(14,549)
	<hr/>	<hr/>
	-	(21,664)
	<hr/>	<hr/>

13 Share capital

	2004 £	2003 £
<i>Authorised</i>		
<i>Equity share capital</i>		
100,000 shares of 1p each	1,000	1,000
	<hr/>	<hr/>
	2004 £	2003 £
<i>Allotted and called up</i>		
<i>Equity share capital</i>		
975,000 shares of 1p each	975	970
	<hr/>	<hr/>

On 12 February 2004 the company changed the authorised share capital from 1,000 ordinary £1 shares to 100,000 ordinary shares of 1p each. On the same date, the company issued a further five hundred ordinary 1p shares at par.

Notes forming part of the financial statements for the year ended 31 December 2004 (Continued)

14 Reconciliation of movements in shareholder's funds

	2004 £	2003 £
Profit for the year	261,017	138,721
Issue of shares	5	-
	<hr/>	<hr/>
Net additions to shareholder's funds	261,022	138,721
Opening shareholder's funds	467,180	328,459
	<hr/>	<hr/>
Closing shareholder's funds	728,202	467,180
	<hr/>	<hr/>

15 Commitments under operating leases

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

	2004 Land and buildings £	2004 Other £	2003 Land and buildings £	2003 Other £
Operating leases which expire:				
Within one year	63,600	-	-	-
In two to five years	-	91,334	63,600	20,496
	<hr/>	<hr/>	<hr/>	<hr/>

Included within operating leases which expire in two to five years are leases totalling £52,920 that are covered by cross company guarantees.

16 Reconciliation of operating profit to net cash inflow from operating activities

	2004 £	2003 £
Operating profit	310,991	106,540
Depreciation of tangible fixed assets	58,098	16,868
Increase in debtors	(1,245,557)	(675,993)
Increase in creditors	1,543,044	1,059,812
	<hr/>	<hr/>
Net cash inflow from operating activities	666,576	507,227
	<hr/>	<hr/>

17 Reconciliation of net cash flow to movement in net funds

	2004 £	2003 £
Increase in cash	602,568	473,447
Cash outflow from changes in debt	34,185	12,458
	<hr/>	<hr/>
Movement in net funds resulting from cash flows	636,753	485,905
Inception of finance leases	(48,400)	(66,350)
	<hr/>	<hr/>
Movement in net funds	588,353	419,555
Opening net funds	832,164	412,609
	<hr/>	<hr/>
Closing net funds	1,420,517	832,164
	<hr/>	<hr/>

18 Analysis of net funds

	At 1 January 2004 £	Cash flow £	Other non- cash items £	At 31 December 2004 £
Cash at bank and in hand	886,056	602,568	-	1,488,624
Finance leases	(53,892)	34,185	(48,400)	(68,107)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	832,164	636,753	(48,400)	1,420,517
	<hr/>	<hr/>	<hr/>	<hr/>