

Company Registration No. 02709891  
(England and Wales)

**PNC TELECOM PLC**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2007**

**JEFFREYS HENRY LLP**  
Chartered Accountants

**Finsgate**  
5-7 Cranwood Street  
London EC1V 9EE

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19/10/2007

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COMPANIES HOUSE

# PNC TELECOM PLC

## CONTENTS

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	<b>Page</b>
Chairman's Statement	1
Directors and Advisers	2
Directors' Report	3
Independent Auditors' Report to the Shareholders	6
Profit and Loss Account	8
Reconciliation of Movements in Shareholders' Funds	9
Balance Sheet	10
Cash Flow Statement	11
Notes to the Financial Statements	12

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# **PNC TELECOM PLC**

## **CHAIRMAN'S STATEMENT**

The year to 31<sup>st</sup> March 2007 has been spent in renegotiating a number of leases and taking legal actions against previous directors. As it can be seen in the previous announcements, we have obtained judgements against G Thomas and N Etherington for £281,750 and further £108,000 against N Etherington plus cost in excess of £100,000 and interest in excess of £65,000.

We are now waiting a tribunal hearing from HMRC for our VAT reclaim for both Vat repayment and loss of income.

Our investment in SIM 4 Travel is currently valued at £625,000 at the mid price as at 13 September 2007.

Your board are looking at a number of other businesses in the mobile and retail fields and will keep shareholders informed of any developments.

  
L E.V. Knifton  
Chairman

**27 September 2007.**

# **PNC TELECOM PLC DIRECTORS AND ADVISERS**

**Directors**

**J.W Case  
L.E.V. Knifton**

**Secretary**

**International Registrars Limited**

**Registered Office**

Finsgate  
5 – 7 Cranwood Street  
London  
EC1V 9EE

**Registrars**

**Capita IRG Plc**  
Bourne House  
34 Beckenham Road  
Kent  
BR3 4TU

**Bankers**

**Barclays Bank Plc**  
54 Lombard Street  
London  
EC3P 3AH

**Solicitors**

**Pritchard Eaglefield Solicitors**  
14 New Street  
London EC2M 4HE

**Auditors**

**Jeffreys Henry LLP**  
Finsgate  
5-7 Cranwood Street  
London EC1V 9EE

**Nominated Advisors**

**Beaumont Cornish Limited**  
Fifth Floor, 10-12 Copthall Avenue  
London EC2R 7DE

**Brokers**

**Falcon Securities (UK) Limited**  
152/154 Bishopsgate  
London  
EC2N 4AJ

**Website**

**[www.telecom-plc.co.uk](http://www.telecom-plc.co.uk)**

# PNC TELECOM PLC

## DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2007

The Directors present their annual report and the audited financial statements for the year ended 31 March 2007

### Principal Activities

The principal activity of the company is the export and import of mobile phones and other electrical equipment

### Business Review and Future Developments

A review of the business and future developments is contained in the Chairman's Statement

### Key Performance Indicators

The Company has only traded for the first few months in the year resulting in a loss £664,000 We will continue to keep operating costs to a minimum

### Key Risks and Uncertainties

The key risks and uncertainties that currently facing the Company is the possibility that the VAT refund may not be received

### Dividend

The Directors resolved that no dividend will be paid for the year ended 31 March 2007

### Directors and their interests

The Directors of the Company, all of whom served throughout the year except where stated below were -

J W Case  
L E V Knifton

### Directors' Interests

The interests of the Directors and persons connected with them in the issued share capital of the Company as notified to the Company were as follows

Directors	31 March 2007 Ordinary Shares 0.1p each	31 March 2006 Ordinary Shares 0.1p each
J W Case	13,850,000	12,710,000
L E V Knifton	-	-

# PNC TELECOM PLC

## DIRECTORS' REPORT continued

### Substantial Interests

The company has been notified of the following persons (other than those referred to in the paragraph above) who hold interests (as defined in Part VI of the Act) in 3 per cent or more of the issued ordinary share capital of the Company at 17 September 2007

	Number of 0 1p Shares	Percentage of Ordinary Share Capital
JIM Nominees Limited	109,046,679	42.25%
ABC (Nominees) Limited	23,976,737	9.29%
Brewin Nominees (Channel Islands) Limited	13,000,000	5.04%
TD Waterhouse Nominees (Europe) Limited	12,397,704	4.80%
Artillery Nominees Limited	8,471,008	3.28%

Save as disclosed above, the Directors are not aware of any other interests that represent or will represent 3 per cent or more of the issued ordinary share capital of the Company

### Policy of Payment of Creditors

It was the Company's normal practice to agree payments terms with all its suppliers. Payment was made when it has been confirmed that the goods or services had been provided in accordance with the agreed contractual terms and conditions. Creditor days, represented by the aggregate amount of trade creditors at the year end compared with the aggregate amount invoiced by suppliers in the year, in 2007 were 18 days (2006 – 73 days)

### Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution proposing that Jeffrey's Henry LLP be re-appointed as auditors will be put to the Annual General Meeting

### Statement of Directors' Responsibilities

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the Directors to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable United Kingdom accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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 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

## **PNC TELECOM PLC DIRECTORS' REPORT continued**

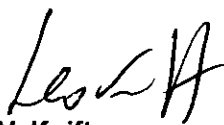
The Directors are responsible for ensuring that the Directors' report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom

### **Statement of disclosure to auditors**

- a) So far as the directors are aware, there is no relevant audit information of which the company auditors are unaware, and
- b) They have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

### **Corporate Governance**

The Company is not required to comply with the code of Best Practice as set out in Section 1 of the Combined Code appended to the Listing Rules of the Financial Services Authority as it is listed on AIM. All relevant discussions being taken by the full board



**L.E.V Knifton  
Company Director  
27 September 2007**

27/9/07

27/9/07

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF PNC TELECOM PLC**

We have audited the financial statements on pages 8 to 20 of PNC Telecom Plc for the year ended 31 March 2007. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

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 for no purpose other than to draw to the attention of the Company's members those matters which we are required to include in an auditor's report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the Company and 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 (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 the Directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report, comprising only the Directors' report and Chairman's statement, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of Audit Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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.



# INDEPENDENT AUDITORS' REPORT continued TO THE SHAREHOLDERS OF PNC TELECOM PLC

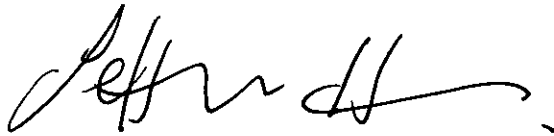
## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company as at 31 March 2007 and of the loss for the year then ended and
- have been properly prepared in accordance with the Companies Act 1985 and
- the information contained in the Directors' Report is consistent with the financial statements

## Emphasis of matter – going concern

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosure made in the accounting policies on page 12 of the financial statements concerning the company's ability to continue as a going concern. The Company incurred a net loss of £664,000 for the year ended 31 March 2007 and, at that date, the company's net current liabilities were £209,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.



Jeffreys Henry LLP  
Chartered Accountants  
Registered Auditors

28 September 2007

Finsgate  
5-7 Cranwood Street  
London EC1V 9EE

**PNC TELECOM PLC**  
**PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED 31 MARCH 2007**

	Notes	31 March 2007 £'000	31 March 2006 £'000
Turnover	2	959	25,840
Cost of Sales		(855)	(24,871)
<b>Gross Profit</b>		<u>104</u>	<u>969</u>
Operating expenses		(415)	(533)
<b>Operating Profit/ (Loss)</b>		<u>(311)</u>	<u>436</u>
<b>Profit/ (Loss) on ordinary activities before interest and tax</b>		(311)	436
Interest receivable and similar income	4	9	8
Interest payable	5	(362)	(297)
<b>Profit/ (Loss) on ordinary activities before tax</b>		<u>(664)</u>	<u>147</u>
Tax on loss on ordinary activities	6	-	-
<b>Retained Profit/ (Loss) for the year</b>		<u>(664)</u>	<u>147</u>
Loss per share	7	Pence 0 37	Pence 0 14
Diluted loss per share	7	0 37	0 02

There are no other recognised gains or losses in the year  
There are no acquisitions or discontinued operations in the year

**PNC TELECOM PLC  
RECONCILIATION OF MOVEMENTS IN  
SHAREHOLDERS' FUNDS**

**FOR THE YEAR ENDED 31 MARCH 2007**

	<b>2007 £'000</b>	<b>2006 £'000</b>
Profit/(Loss) for the financial year	(664)	147
Conversion of loan notes	45	100
Issue of shares	-	5
Opening shareholders' funds	410	158
Closing shareholders' funds	<u>(209)</u>	<u>410</u>

# PNC TELECOM PLC BALANCE SHEET

AS AT 31 MARCH 2007

	Note	2007 £'000	2006 £'000
<b>Fixed Assets</b>			
Tangibles	8	10	150
Investments	9	100	100
		<u>110</u>	<u>250</u>
<b>Current Assets</b>			
Stock	10	3	14
Debtors due within one year	11	1,289	1,806
Cash at bank		1	1,721
		<u>1,293</u>	<u>3,541</u>
<b>Creditors: Amounts falling due within one year</b>	12	<b>(1,137)</b>	<b>(2,784)</b>
Net Current Assets		<u>156</u>	<u>757</u>
<b>Total Assets Less Current Liabilities</b>		<b>266</b>	<b>1,007</b>
<b>Creditors: Amounts falling due greater than one year</b>	13	<b>(475)</b>	<b>(597)</b>
<b>Net Assets</b>		<u><b>(209)</b></u>	<u><b>410</b></u>
<b>Capital and Reserves</b>			
Called up share capital	15	2,554	2,509
Share premium account	16	48,033	48,033
Profit and loss account	16	(50,796)	(50,132)
<b>Equity Shareholders' Funds</b>		<u><b>(209)</b></u>	<u><b>410</b></u>

The financial statements were approved and authorised for issue by the Board on 27 September 2007 and signed on its behalf by



**L.E.V. Knifton**  
Director

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**PNC TELECOM PLC  
CASH FLOW STATEMENT**

**FOR THE YEAR ENDED 31 MARCH 2007**

	<b>Note</b>	<b>2007 £'000</b>	<b>2006 £'000</b>
<b>Net cash inflow/ (outflow) from operating activities</b>	19	(1,358)	1,300
<b>Returns on investment and servicing of finance</b>	20	(353)	(286)
<b>Capital Expenditure</b>	20	115	(154)
<b>Financing</b>	20	(125)	602
<b>Increase / (Decrease) in cash</b>	21	<u>(1,721)</u>	<u>1,462</u>

# **PNC TELECOM PLC**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2007**

### **1. ACCOUNTING POLICIES**

#### **Basis of accounting**

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

#### **Going Concern**

HMRC have withheld repayment of VAT and this has necessitated in the curtailment of the company's trade of the import and export of mobile phones. The Company has taken legal advice and is taking action against HMRC for the repayment of the VAT and loss of income. Ongoing overhead costs in the year have been kept to a minimum and been financed by loans from the directors.

The directors have undertaken to provide funds for working capital purposes in the next twelve months and in addition are pursuing payment from the previous directors following the receipt of judgment against them as noted on Note number 17.

Accordingly, the directors believe that it is appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would be required if this basis was not appropriate.

#### **Turnover**

Turnover represents the amount invoiced for services and product provided (excluding value added tax).

#### **Deferred Taxation**

Deferred tax was 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 FRS19.

#### **Pensions**

The Company operated a defined contribution scheme for some senior staff members. The pension costs for that scheme represented contributions payable by the Company in the year.

#### **Fixed Asset Investment**

Fixed asset investments are stated at cost less provision for diminution in value.

#### **Tangible fixed assets and depreciation**

Depreciation is provided to write off the cost less estimated residual value of tangible fixed assets over the estimated useful economic life subject to the following periods:

Motor Vehicles	-	25% Reducing Balance
Office Equipment	-	15% Reducing Balance

#### **Stocks**

Stock is valued at the lower of cost and net realisable value.

### **2(a). TURNOVER**

The Directors consider it prejudicial to disclose the geographical analysis of turnover.

**PNC TELECOM PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Continued**

FOR THE YEAR ENDED 31 MARCH 2007

**2(b) PROFIT ON ORDINARY ACTIVITIES BEFORE TAX**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Depreciation	20	48
Auditors' remuneration		
- audit fees	16	10
- other fees	-	-
Loss on disposal of motor vehicles	5	-
Recovery from claims against former directors	<u>31</u>	<u>115</u>

**3. EMPLOYEES**

<b>Directors' remuneration</b>	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Salaries and fees	10	100
Pension contributions	<u>9</u>	<u>15</u>
	<u>19</u>	<u>115</u>

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs, including Directors		
Wages and salaries	41	115
Social Security costs	5	14
Other pension costs	<u>9</u>	<u>15</u>
	<u>55</u>	<u>144</u>

Please see Note 22 for fees paid to directors

**4 INTEREST RECEIVABLE AND SIMILAR INCOME**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Bank Interest receivable	<u>9</u>	<u>8</u>

**5. INTEREST PAYABLE**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Other interest payable	350	294
Hire Purchase Interest payable	<u>12</u>	<u>3</u>
	<u>362</u>	<u>297</u>

**PNC TELECOM PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Continued**

**6. TAXATION**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Current tax		
UK Corporation tax on profits of the period	-	-
Adjustments in respect of prior periods	-	-
	<u>-</u>	<u>-</u>
	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Current tax reconciliation		
Profit/(Loss) on ordinary activities before tax	<u>(664)</u>	<u>147</u>
Theoretical tax at UK corporation tax rate 30% (2006 30%)	(199)	44
Effects of		
Non deductible expenses	-	-
Depreciation	8	48
Capital allowances	(19)	(60)
Tax losses carry forward	210	
Tax losses utilised	-	(32)
Other tax adjustment	-	-
Actual current tax charge for period	<u>-</u>	<u>-</u>

The company has trading losses of £699,302 and excess management expenses of £3,045,508 (2006 - £3,137,000) available for carry forward which are subject to agreement with the Inland Revenue

**7. EARNINGS PER SHARE**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
The weighted average number of shares used was		
Basic	<u>181,016</u>	<u>105,865</u>
Diluted	<u>181,016</u>	<u>593,262</u>

In the diluted EPS calculation, share options with an exercise price of less than the average share price for the year have not been treated as dilutive where to do so would decrease the net loss per share

	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>£'000</b>	<b>pence per share</b>	<b>£'000</b>	<b>pence per share</b>
<b>Basic EPS</b>				
Profit/ (Loss) for the year	(664)	(0 37)p	147	0 14p
<b>Diluted EPS</b>				
Profit/ (Loss) for the year and loss per share	(664)	(0 37)p	147	0 02p



**PNC TELECOM PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Continued**

FOR THE YEAR ENDED 31 MARCH 2007

**8 TANGIBLE FIXED ASSETS**

	Fixtures, Fittings and equipment £000	Motor Vehicles £000	Total £000
<b>Cost</b>			
At beginning of year	16	183	199
Disposal	-	(183)	(183)
At end of year	<u>16</u>	<u>-</u>	<u>16</u>
<b>Depreciation</b>			
At beginning of year	2	47	49
Charge for year	4	17	21
Disposal	-	(64)	(64)
At end of year	<u>6</u>	<u>-</u>	<u>6</u>
<b>Net book value</b>			
At 31 March 2007	<u>10</u>	<u>-</u>	<u>10</u>
At 31 March 2006	<u>14</u>	<u>136</u>	<u>150</u>

**9. INVESTMENTS**

	Listed Investments £
<b>Cost</b>	
At beginning of year	100
Additions	-
At end of year	<u>100</u>

The company owns 50million ordinary shares in Sm4Travel Holdings Limited, a company quoted on Plus Markets, the value of the investment at the date of the annual report was £625,000

**10 STOCK**

	2007 £'000	2006 £'000
Finished Goods	<u>3</u>	<u>14</u>

**PNC TELECOM PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Continued**

**FOR THE YEAR ENDED 31 MARCH 2007**

**11 DEBTORS**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Due within one year		
Trade debtors	5	1
Other debtors	<u>1,284</u>	<u>1,805</u>
	<u>1,289</u>	<u>1,806</u>

In other debtors, there is an amount of £1.2 million which relates to VAT recoverable. HMRC are withholding payments due to the Company along with other mobile phone dealers. The Company has taken legal advice and are preparing a case against HMRC for both repayment and loss of income. The VAT is considered to be fully recoverable on the basis that even if there was evasion of VAT elsewhere within the chain of transactions the Directors had no knowledge nor should have had such knowledge.

**12 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Bank Overdraft	1	
Net obligations under finance leases	-	48
Trade creditors	14	93
Other creditors	735	2,391
Other taxes and social security costs	4	20
Accruals and deferred income	<u>383</u>	<u>232</u>
	<u>1,137</u>	<u>2,784</u>

**13. CREDITORS. AMOUNTS FALLING DUE OVER YEAR**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Net obligations under finance leases	-	77
Convertible loan (a)	425	425
Convertible loan (b)	<u>50</u>	<u>95</u>
	<u>475</u>	<u>597</u>

The convertible loans 'a' and 'b', are convertible into ordinary shares at 0.1p per share, exercisable by 16 February 2012 and 28 April 2012 respectively. In addition the loan gives the right to subscribe for ordinary shares at a price of 0.1p each.

On the 19 May 2006, £5,000 of Loan Notes were converted into Ordinary Shares.

On the 28 November, a further £40,000 of Loan Notes were converted into Ordinary Shares.

**PNC TELECOM PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Continued**

**FOR THE YEAR ENDED 31 MARCH 2007**

**14 FINANCIAL INSTRUMENTS**

The Company's financial instruments comprised borrowings, cash and various items such as trade debtors and creditors that arose directly from operations. The main purpose of these instruments was to raise finance for operations. The Company had not entered into derivative transactions nor did it trade in financial instruments as a matter of policy.

Short-term debtors and creditors are excluded from the disclosures which follow.

**Financial Assets**

The only financial asset is cash at bank. At 31 March 2007 the Company had cash at bank of £526 (2006-£1,721,000).

**15 SHARE CAPITAL**

	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
	<b>No. 000</b>	<b>No. 000</b>	<b>£'000</b>	<b>£'000</b>
Authorised				
Ordinary shares of 0.1p each	1,543,873	1,543,873	1,544	1,544
Deferred Ordinary shares of 4.9p each	<u>48,084</u>	<u>48,084</u>	<u>2,356</u>	<u>2,356</u>
			<u>3,900</u>	<u>3,900</u>
Allotted, called up and fully paid				
Ordinary shares of 0.1p each	208,084	163,084	208	163
Deferred Ordinary shares of 4.9p each	<u>48,084</u>	<u>48,084</u>	<u>2,346</u>	<u>2,346</u>
			<u>2,554</u>	<u>2,509</u>

On 19 May 2006, 5,000,000 ordinary shares were issued at 0.1p per share on conversion of loan notes.

On 28 November 2006, a further 40,000,000 ordinary shares of 0.1p per share on conversion of loan notes.

On the 27 May 2007, a further 50,000,000 ordinary shares were issued on conversion of loan notes.

The deferred shares do not confer any voting rights.

**PNC TELECOM PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Continued**

FOR THE YEAR ENDED 31 MARCH 2007

**16 RESERVES**

	<b>Share premium account £'000</b>	<b>Profit and Loss account £'000</b>
At 1 April 2006	48,033	(50,132)
Retained profit for period	-	(664)
At 31 March 2007	<u>48,033</u>	<u>(50,796)</u>

**17 CONTINGENCIES**

On the 6 August 2007, in successful litigation in High Court in London the Company has obtained judgements against two former Directors of the Company, Mr Jeremy Thomas – in respect of his breach of fiduciary duty and Mr Nigel Etherington, jointly and severally for £281,750 plus interest since August 2004, and separately against Mr Etherington for a further sum of £108,000 including interest to date

As against Mr Thomas, the Company was also awarded a contribution towards costs of which there is a payment of £20,000 due by August 2007

Further costs are also recoverable from Mr Thomas (estimated to be £30,000) and Mr Etherington (estimated to be £140,000)

The Directors of PNC have been made aware that Vanguard Plc is being placed into administration. This has the effect of potentially creating a liability to PNC for a number of leases on certain properties that were indemnified by Vanguard Plc. PNC has taken steps to mitigate these losses by attempting to assign these leases. The directors have been advised that there may be several claims that they may make against some of the professionals who handled the original administration of PNC Plc which ended in January 2004.

**18 CONTROL**

PNC Telecom Plc is listed on the AIM. At the date of the Annual report in the directors' opinion there is no controlling party.

**PNC TELECOM PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Continued**

FOR THE YEAR ENDED 31 MARCH 2007

**19 RECONCILIATION OF OPERATING PROFIT TO NET CASH FLOW FROM OPERATING ACTIVITIES**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Operating (loss)/profit	(311)	436
Working capital movements		
(Increase)/Decrease in Stock	11	(14)
(Increase)/Decrease in Debtors	517	(1,761)
Increase/(Decrease) in Creditors	(1,600)	2,590
Depreciation	20	49
Loss on disposal of fixed assets	5	-
Net cash inflow/ (outflow) from operating activities	<u>(1,358)</u>	<u>1,300</u>

**20 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Capital Expenditure		
Disposal of tangible fixed assets	115	(54)
Payments to acquire investments	-	(100)
Net cash outflow from capital expenditure	<u>115</u>	<u>(154)</u>
Returns on investments and servicing of finance		
Interest paid	(362)	(294)
Interest received	9	8
Net cash (outflow)/ inflow for returns on investments and servicing of finance	<u>(353)</u>	<u>(286)</u>
Financing		
Hire Purchase Repayments	(125)	(23)
Conversion of loans	(45)	620
Proceeds from issue of shares	45	5
Net cash inflow from financing	<u>(125)</u>	<u>602</u>

**PNC TELECOM PLC**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Continued**

**FOR THE YEAR ENDED 31 MARCH 2007**

**21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS**

	<b>2007</b> <b>£'000</b>	<b>2006</b> <b>£'000</b>
Increase /(Decrease) in cash in the year	(1,721)	1,462
Issue of convertible loans	-	(520)
Change in net debt from cash flows (see note 19)	<u>(1,721)</u>	<u>942</u>
Net funds at 1 April 2006	1,201	259
Net funds at 31 March 2007	<u>(520)</u>	<u>1,201</u>

**22 RELATED PARTY TRANSACTIONS**

During the year, the company paid consultancy fees of £4,950 to Fort Knox Property Services, a business owned by a director, Mr Leo Knifton

£115,000 (2006-£115,000) of the convertible loan notes were due to Mr Leo Knifton

During the year, the company paid rent of £2,916 (2006-£31,162) and commissions of £28,890 (2006-£205,847) to Mr Joe Case, a director of the company

£63,000 (2006-£163,000) of the convertible loan notes were due to Mr Joe Case