

Technology Services Group Limited

Directors' report and financial
statements

Registered number 04816673

31 October 2007

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Directors' Report

The directors present their directors' report and financial statements for the year ended 31 October 2007.

Principal activities

The principal activity of the group is the provision and support of IT solutions in hardware and business software, to small and medium sized businesses.

Business review

Background

Technology Services Group Ltd ("TSG") sells and supports IT systems to small and medium size businesses ("SME's"). The company resells business software applications and IT hardware and then services and supports customers to help ensure that they derive the maximum business benefits from their IT investment.

The business strategy is to offer UK-wide IT service delivery to SME's based around a "best of breed" product set. Service is delivered through a network of TSG offices, enabling the company to provide a local service and on-site support where required. TSG has regional head offices based in Birmingham, Glasgow, Manchester, Newcastle-upon-Tyne, and Southampton.

Since being founded in 2003 TSG has acquired and integrated over 20 businesses across the UK. In November 2006 TSG acquired CCL Technologies Ltd, a Sage and hardware reseller based in London. This acquisition brought contracted customers to TSG, as well as a presence in South West London. This acquisition continued a strategy to acquire contracted customer bases and to extend geographic reach.

In March 2007, as part of a strategy to focus solely on SME customers, the company sold its Sage Line 500 customer base. This unit, which contributed approximately £2million annually to group turnover, focussed on much larger enterprise customers with more complex system requirements and, as such, is not core to TSG's business model. Subsequent to the year end, in May 2008, TSG purchased the British based Pegasus and IT infrastructure business of Xperience Group Limited. This acquisition makes TSG the largest Pegasus reseller in the UK and also adds further territories to the company, bringing offices across the East Midlands and north London.

Results

A summary of the results for the year are as follows:

Year Ending 31st October	2007	2006
Turnover (£'000)	33,710	33,883
Gross Margin (£'000)	14,695	12,875
Gross Margin (%)	43.6%	38.0%
Operating Loss* (£'000)	(883)	(4,741)
EBITDA (£'000)	(559)	(4,033)
Cash generated from operating activities	1,522	(4,290)

*before goodwill amortisation

Sales from continuing operations show 6% growth in the year to October 2007.

Trading results for the year were satisfactory in that they reflect a continued focus on gross margin, operational efficiency improvements and management of working capital.

The gross margin % improvement results from focus on higher margin support and service sales. Support sales represented more than 33% of the company's turnover in the year to 31 October 2007. During this period the company continued the development of an enhanced IT support service which enables proactive management of customer systems. The number of customers using this service increased by 73% to 1,203 at 31 October 2007 (31 October 2006: 693).

Directors' report *(continued)*

Progress was also made in the year on implementing consistent processes and systems throughout the group. This is an ongoing challenge, particularly as further acquisitions are made, but the delivery of consistent and accurate management information will help ensure improved control and business performance.

Focus on working capital management and stronger trading led to a £5.8million improvement in cash generation from operating activities between 2006 and 2007. In particular, the implementation of better quality controls in sales, service and finance greatly reduced debtor levels compared to the previous year end.

Most pleasingly, the more mature regional businesses also delivered results which indicate that the overall business strategy is robust, and which gives the board confidence to pursue further consolidation.

Whilst TSG competes on a regional basis with large numbers of small IT resellers, the directors are not aware of any comparable competitors with a similar focus, breadth of IT expertise and geographic presence across the UK. This both differentiates TSG's offering and enables the company to maximise buying power with key business partners.

Risk and uncertainties

The operation of the company involves a series of risks and uncertainties across a range of strategic, commercial, operational and financial areas. As a relatively new organisation which is growing quickly through acquisition, TSG faces specific challenges around the need to constantly develop and improve control systems which keep pace with the planned growth of the business. The company therefore has a set of internal controls and risk management processes that are designed to identify and provide assurance over the key risks and uncertainties faced by the company. They cannot however seek to avoid all risks.

Outlined below are the potential risks that could have a material impact on the company's performance.

- *Customers and Competitors*
The company manages the risks presented by its customer base and the competitive environment that characterises the market place through delivery of high quality services designed to meet customer needs.
- *Acquisitions*
The board has a robust process in place for the identification and acquisition of businesses that fulfil set criteria. A detailed due diligence process and post acquisition integration process should ensure that potential issues are identified and managed.
- *Employees – retention and recruitment*
Reward, assessment, training and communication programmes are used to retain and attract suitably experienced employees. Failure to retain and recruit employees could impact the company's ability to meet its service obligations.
- *Capital structure and treasury policy*
The company finances its operations through a mixture of cash generation and bank loans. The risk which the company faces in financing its operations is interest rate risk and liquidity risk. Detailed cash forecasting is used to manage financial risk. The company operates a setting off agreement between cash and bank loans and uses operational cash management to mitigate interest rate risk.

Future prospects

Although economic uncertainties will impact the buying behaviour and budgets of SME's, TSG has a well diversified customer base. This diversification relates to both industry sectors and the volume of trading customers.

The board believes that the reliance placed by many customers on their IT, and in particular accounting and CRM applications, will ensure that underlying support and service income will not be substantially impacted.

The board continues to search for appropriate acquisitions that fulfil key investment criteria, and believes that opportunities to acquire distressed businesses will increase. The board remains confident in this consolidation strategy.

Proposed dividend

The directors cannot recommend the payment of a dividend.

Directors' report *(continued)*

Directors

The directors who held office during the year were as follows:

Graham Wylie	(Chairman)
David Stonehouse	(Chief Executive)
Nigel Hudson	
Mark Joynson	
Peter Joynson	(resigned 1 February 2007)
Simon Kujawa	
Duncan Davies	
Tom O'Hara	(appointed 26 February 2007)

On 1 November 2007 Alexander James Henderson was appointed as a director.

Employees

The directors have always recognised the importance of good communications and have continued to inform and consult with employees on all matters likely to affect them. Regular staff meetings are held to enable information to be disseminated to all employees.

The group recognises its social and statutory obligation with respect to the employment of disabled persons, and considers such persons for employment where the requirements of the job are such that the duties can be effectively and safely covered by a handicapped or disabled person. In the event of employees becoming disabled, every effort is made to ensure that their employment with the company continues, bearing in mind the handicap or disability.

The need to develop the careers of disabled employees is accepted by the group and the necessary steps are taken to train and promote disabled employees where it is in their own and the group's best interest.

Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities amounted to £11,897 (2006: £2,458).

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board.

DP Davies
Director

One Gosforth Parkway
Gosforth Business Park
Newcastle upon Tyne
NE12 8ET

13 August 2008

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 group and the parent company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



KPMG LLP

Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditors' report to the members of Technology Services Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Technology Services Group Limited for the year ended 31 October 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliations of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under 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 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

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 4.

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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.

Independent auditors' report to the members of Technology Services Group Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 October 2007 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP
Chartered Accountants
Registered Auditor

13 August 2008

Consolidated Profit and Loss Account
for the year ended 31 October 2007

	Note	Excluding goodwill amortisation 2007 £000	Goodwill amortisation 2007 £000	Total 2007 £000	Excluding goodwill amortisation 2006 £000	Goodwill Amortisation 2006 £000	Total 2006 £000
Group turnover	1,2						
Continuing operations		32,864	-	32,864	30,953	-	30,953
Discontinued operations		846	-	846	2,930	-	2,930
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Cost of sales	2	33,710 (19,015)	-	33,710 (19,015)	33,883 (21,008)	-	33,883 (21,008)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Gross profit		14,695	-	14,695	12,875	-	12,875
Administrative expenses	2	(15,578)	(2,262)	(17,840)	(17,616)	(2,256)	(19,872)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Group operating (loss)/profit	2						
Continuing operations		(1,162)	(2,167)	(3,329)	(5,519)	(1,994)	(7,513)
Discontinued operations		279	(95)	184	778	(262)	516
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
		(883)	(2,262)	(3,145)	(4,741)	(2,256)	(6,997)
		<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Profit on sale of discontinued operations	2			576			5
Interest receivable	6			366			215
Interest payable and similar charges	7			(750)			(687)
				<hr/>			<hr/>
Loss on ordinary activities before taxation	2-7			(2,953)			(7,464)
Tax on loss on ordinary activities	8			(84)			47
				<hr/>			<hr/>
Loss for the financial year	19			(3,037)			(7,417)
				<hr/>			<hr/>

The group had no recognised gains or losses other than the loss for the financial year.

Consolidated Balance Sheet
at 31 October 2007

	<i>Note</i>	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Intangible assets					
Goodwill	<i>9</i>		14,778		17,373
Tangible assets	<i>10</i>		917		1,262
			<hr/>		<hr/>
			15,695		18,635
Current assets					
Stocks	<i>12</i>	308		415	
Debtors	<i>13</i>	10,728		13,161	
Cash at bank and in hand		6,203		5,642	
			<hr/>		
		17,239		19,218	
Creditors: amounts falling due within one year	<i>14</i>	(7,811)		(8,797)	
			<hr/>		
Net current assets					
Due within one year		8,375		8,937	
Debtors due after more than one year	<i>13</i>	1,053		1,484	
			<hr/>		
			9,428		10,421
			<hr/>		
Total assets less current liabilities			25,123		29,056
Creditors: amounts falling due after more than one year	<i>15</i>		(3,937)		(7,542)
Deferred income			(7,894)		(8,185)
			<hr/>		
Net assets			13,292		13,329
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	<i>18</i>		30,091		28,091
Share premium account	<i>19</i>		4,700		3,700
Profit and loss account	<i>19</i>		(21,499)		(18,462)
			<hr/>		
Shareholders' funds			13,292		13,329
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 13 August 2008 and were signed on its behalf by:

DP Davies
Director

Company Balance Sheet
at 31 October 2007

	<i>Note</i>	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Intangible assets					
Goodwill	<i>9</i>		15,192		17,770
Tangible assets	<i>10</i>		917		1,262
Investments	<i>11</i>		8,024		7,144
			<hr/>		<hr/>
			24,133		26,176
Current assets					
Stocks	<i>12</i>	308		415	
Debtors	<i>13</i>	10,728		13,161	
Cash at bank and in hand		6,203		5,642	
		<hr/>		<hr/>	
		17,239		19,218	
Creditors: amounts falling due within one year	<i>14</i>	(15,835)		(15,941)	
		<hr/>		<hr/>	
Net current assets					
Due within one year		351		1,793	
Debtors due after more than one year	<i>13</i>	1,053		1,484	
		<hr/>		<hr/>	
			1,404		3,277
			<hr/>		<hr/>
Total assets less current liabilities			25,537		29,453
Creditors: amounts falling due after more than one year					
	<i>15</i>		(3,937)		(7,542)
Deferred income			(7,894)		(8,185)
			<hr/>		<hr/>
Net assets			13,706		13,726
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	<i>18</i>		30,091		28,091
Share premium account	<i>19</i>		4,700		3,700
Profit and loss account	<i>19</i>		(21,085)		(18,065)
			<hr/>		<hr/>
Shareholders' funds			13,706		13,726
			<hr/> <hr/>		<hr/> <hr/>

These financial statements were approved by the board of directors on 13 August 2008 and were signed on its behalf by:

DP Davies
Director

Consolidated Cash Flow Statement
for the year ended 31 October 2007

	<i>Note</i>	2007 £000	2006 £000
Cash flow statement			
Cash flow from operating activities	22	1,522	(4,290)
Returns on investments and servicing of finance	23	(380)	(401)
Taxation		(104)	(18)
Capital expenditure	23	(111)	7
Acquisitions and disposals	23	692	(2,559)
		<hr/>	<hr/>
Cash inflow/(outflow) before financing		1,619	(7,261)
Financing	23	(1,058)	10,010
		<hr/>	<hr/>
Increase in cash in the year		561	2,749
		<hr/> <hr/>	<hr/> <hr/>
Reconciliation of net cash flow to movement in net funds/(debt)			
	24		
Increase in cash in the year		561	2,749
Cash outflow/(inflow) from decrease/(increase) in debt		4,045	(6,047)
Cash outflow from decrease in lease financing		13	37
		<hr/>	<hr/>
Change in net debt resulting from cash flows		4,619	(3,261)
Short term debt and finance leases acquired with subsidiaries		-	(185)
		<hr/>	<hr/>
Movement in net funds/(debt) in the year		4,619	(3,446)
Net debt at the start of the year		(3,813)	(367)
		<hr/>	<hr/>
Net funds/(debt) at the end of the year		806	(3,813)
		<hr/> <hr/>	<hr/> <hr/>

Reconciliations of Movements in Shareholders' Funds
for the year ended 31 October 2007

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Loss for the financial year	(3,037)	(7,417)	(3,020)	(7,298)
New share capital subscribed in year (net of issue costs)	3,000	4,220	3,000	4,220
Net reduction in shareholders' funds	(37)	(3,197)	(20)	(3,078)
Opening shareholders' funds	13,329	16,526	13,726	16,804
Closing shareholders' funds	13,292	13,329	13,706	13,726

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, except as explained in note 11, and under the historical cost accounting rules.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 31 October 2007. The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the period are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

On the subsequent disposal or termination of an acquisition, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less amounts written off.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets over their estimated useful economic lives as follows:

Short leasehold land and buildings	-	life of lease
Motor vehicles	-	25% per annum, reducing balance
Fixtures, fittings, tools and equipment	-	20-25% per annum, straight line

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Where the company has entered in to a sale and leaseback transaction, whereby assets previously capitalised are sold and the use of those assets are immediately reacquired by entering in to a lease with the buyer, the above lease classifications are applied in determining the accounting treatment. For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value and the profit or loss from the sale is recognised immediately. Following initial recognition, the lease treatment is consistent with those principles described above.

Notes (continued)

1 Accounting policies (continued)

Post-retirement benefits

The group operates eleven defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents contributions payable to the schemes in respect of the accounting period.

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the FIFO method is used.

Taxation

The charge for taxation is based on the result 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.

Classification of financial instruments issued by the group

Following the adoption of FRS 25, financial instruments issued by the group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- a) they include no contractual obligations upon the company (or group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or group); and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Financial instruments

The company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements and accounts for them as such. In this respect the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

Turnover

Turnover is the amount derived from the provision of goods and services during the financial year, after deduction of valued added tax, and is recognised when the goods have been despatched or the services have been provided. Deferred income arises from the allocation of invoiced amounts over the period to which they relate.

All turnover is generated from the group's principal activity and arises entirely in the UK.

Notes (continued)

1 Accounting policies (continued)

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

2 Analysis of continuing and discontinued operations

The total figures for continuing operations in 2007 include amounts relating to the acquisition of CCL Technologies Limited on 1 November 2006 which was hived up into Technology Services Group Limited on 30 November 2006. As a result of the hive up in to the group's South division it is now not possible to identify the separate results or turnover of the separate parts of the business, as such no indication can be given of the contribution to turnover and operating result of this acquisition, although the directors do not consider the turnover or operating result to be significant to the group as a whole.

During the current year the group disposed of a non-core business which contributed turnover of £846,000 (2006: £1,997,000) and an operating profit of £184,000 (2006: £329,000) after incurring costs of sales of £321,000 (2006: £758,000) and administrative expenses of £341,000 (2006: £910,000), including goodwill amortisation of £95,000 (2006: £195,000).

Net consideration, after associated expenses, received for the sale of the business was £1,687,000, excluding additional deferred contingent consideration of up to £263,000. The carrying value of goodwill relating to the discontinued business of £1,525,000 (group) and £1,541,000 (company) has been written off and deferred income of £414,000 (group and company) has been crystallised, resulting in a profit on disposal of £576,000 (group) and £560,000 (company).

During the prior year the group disposed of a non-core business which contributed turnover in that year of £933,000 and an operating profit of £187,000 after incurring costs of sale of £328,000 and administrative expenses of £418,000, including goodwill amortisation of £67,000.

Consideration received for the sale of the business in the prior year was £432,000 excluding deferred contingent consideration of up to £81,000. The carrying value of goodwill relating to the discontinued business of £544,000 (group) and £542,000 (company) was written off in the prior year and deferred income of £117,000 (group and company) was crystallised, resulting in a profit on disposal of £5,000 (group) and £7,000 (company).

Notes *(continued)*

3 Notes to the profit and loss account

	2007	2006
	£000	£000
<i>Loss on ordinary activities before taxation is stated after charging/(crediting)</i>		
Depreciation and other amounts written off tangible fixed assets:		
Owned	320	686
Leased	4	22
Amortisation of goodwill	2,262	2,256
Loss on sale of fixed assets	25	44
Profit on sale and operating leaseback arrangement	-	(30)
Hire of other assets – operating leases	1,778	1,083
	<hr/> <hr/>	<hr/> <hr/>
<i>Auditors' remuneration:</i>		
Audit of these financial statements	71	68
<i>Amounts receivable by the auditors and their associates in respect of:</i>		
Audit of financial statements of subsidiaries pursuant to legislation	9	22
Other services relating to taxation	6	-
All other services	56	94
	<hr/> <hr/>	<hr/> <hr/>

4 Remuneration of directors

	2007	2006
	£000	£000
Directors' emoluments	749	742
Compensation for loss of office	-	55
	<hr/> <hr/>	<hr/> <hr/>
	749	797

The aggregate emoluments of the highest paid director were £174,670 (2006: £169,745).

Notes *(continued)*

5 Staff numbers and costs

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

	Number of employees Group		Number of employees Company	
	2007	2006	2007	2006
Technical	231	246	231	241
Sales and administration	197	215	196	211
	<u>428</u>	<u>461</u>	<u>427</u>	<u>452</u>

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2007 £000	2006 £000	2007 £000	2006 £000
Wages and salaries	14,019	15,579	13,990	15,344
Social security costs	1,515	1,595	1,512	1,578
Other pension costs (see note 21)	175	129	175	127
	<u>15,709</u>	<u>17,303</u>	<u>15,677</u>	<u>17,049</u>

6 Interest receivable

	2007 £000	2006 £000
Bank interest	366	215

7 Interest payable and similar charges

	2007 £000	2006 £000
On bank loans and overdrafts	546	408
Director's loan	193	210
On all other loans	9	65
Finance charges payable in respect of finance leases	2	4
	<u>750</u>	<u>687</u>

Notes (continued)

8 Taxation

Analysis of charge/(credit) in period

	2007	2007	2006	2006
	£000	£000	£000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	-		(18)	
Adjustments in respect of prior periods	84		(82)	
	<hr/>		<hr/>	
Total current tax		84		(100)
<i>Deferred tax (see note 16)</i>				
Origination/reversal of timing differences	-		-	
Effect of increased tax rate	-		-	
Adjustment in respect of previous years	-		53	
	<hr/>		<hr/>	
Total deferred tax		-		53
		<hr/>		<hr/>
Tax on loss on ordinary activities		84		(47)
		<hr/> <hr/>		<hr/> <hr/>

Factors affecting the tax charge/(credit) for the current period

The current tax charge/(credit) for the period is higher (2006: lower) than the standard rate of corporation tax in the UK 30% (2006: 30%). The differences are explained below.

	2007	2006
	£000	£000
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(2,953)	(7,464)
	<hr/>	<hr/>
Current tax at 30% (2006: 30%)	(886)	(2,239)
<i>Effects of:</i>		
Expenses not deductible for tax purposes (primarily goodwill amortisation)	753	702
Depreciation for period in excess of capital allowances	8	127
Chargeable gains on business disposals	458	-
Utilisation of tax losses	(333)	-
Tax losses not utilised in the period	-	1,392
Adjustments to tax charge in respect of previous periods	84	(82)
	<hr/>	<hr/>
Total current tax charge (see above)	84	(100)
	<hr/> <hr/>	<hr/> <hr/>

Factors that may affect future current and total tax charges

The group has unrelieved UK corporation tax losses of approximately £11,326,000 (2006: £12,388,000) available to carry forward.

The corporation tax rate applicable to the company will change from 30% to 28% from 1 April 2008. Any timing differences which reverse before 1 April 2008 will do so at 30% and any timing differences which exist at 1 April 2008 will reverse at 28%. The directors do not expect this to have a material impact on the financial statements.

Notes *(continued)*

9 Intangible fixed assets

Group	Goodwill £000
<i>Cost</i>	
At beginning of year	24,567
Additions (see note 17)	1,192
Disposals (see note 2)	(3,005)
	<hr/>
At end of year	22,754
	<hr/> <hr/>
<i>Amortisation and impairment</i>	
At beginning of year	7,194
Charged in year	2,262
On disposals (see note 2)	(1,480)
	<hr/>
At end of year	7,976
	<hr/> <hr/>
<i>Net book value</i>	
At 31 October 2007	14,778
	<hr/> <hr/>
At 1 November 2006	17,373
	<hr/> <hr/>
Company	
	Goodwill £000
<i>Cost</i>	
At beginning of year	24,247
Transfer from investments (see note 11)	5
Goodwill arising on hive up (see note 11)	1,132
Additions	40
Disposals (see note 2)	(2,974)
Adjustments	2
	<hr/>
At end of year	22,452
	<hr/> <hr/>
<i>Amortisation and impairment</i>	
At beginning of year	6,477
Charged in year	2,216
On disposal (see note 2)	(1,433)
	<hr/>
At end of year	7,260
	<hr/> <hr/>
<i>Net book value</i>	
At 31 October 2007	15,192
	<hr/> <hr/>
At 1 November 2006	17,770
	<hr/> <hr/>

Goodwill arising on acquisitions by the group and on the trade and net assets of businesses transferred to the company is being amortised in full, on a straight line basis, over 10 years. This is the period over which the directors consider that benefit will be derived.

Adjustments to company goodwill comprise adjustments to the fair value of net assets acquired in the preceding financial period.

Notes *(continued)*

10 Tangible fixed assets

	Short leasehold land and buildings	Motor vehicles	Fixtures, fittings, tools and equipment	Total
Group	£000	£000	£000	£000
<i>Cost</i>				
At beginning of year	822	213	1,062	2,097
Additions	-	-	156	156
Arising on acquisitions (see note 17)	-	-	14	14
Disposals	-	(118)	(252)	(370)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	822	95	980	1,897
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At beginning of year	184	102	549	835
Charge for year	59	23	192	274
Impairment	50	-	-	50
On disposals	-	(78)	(101)	(179)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	293	47	640	980
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 October 2007	529	48	340	917
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 November 2006	638	111	513	1,262
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

10 Tangible fixed assets (continued)

Company	Short leasehold land and buildings £000	Motor vehicles £000	Fixtures, fittings, tools and equipment £000	Total £000
Cost				
At beginning of year	821	211	1,056	2,088
Additions	-	-	156	156
Arising on hire up (see note 11)	-	-	13	13
Disposals	-	(118)	(251)	(369)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	821	93	974	1,888
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At beginning of year	183	100	543	826
Charge for year	59	23	192	274
Impairment	50	-	-	50
On disposals	-	(78)	(101)	(179)
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	292	45	634	971
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 October 2007	529	48	340	917
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 1 November 2006	638	111	513	1,262
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Included in the total net book values of motor vehicles is £4,723 (2006: £62,000) (group) and £4,723 (2006: £62,000) (company) in respect of assets held under finance leases. Depreciation for the year on these assets was £3,719 (2006: £22,000) (group) and £3,719 (2006: £20,000) (company).

11 Fixed asset investments

Company	Shares in group undertakings £000
Cost	
At beginning of year	7,144
Additions	885
Transfer to goodwill (see note 9)	(5)
	<hr/>
At end of year	8,024
	<hr/> <hr/>

Notes *(continued)*

11 Fixed asset investments *(continued)*

Subsequent to acquisition, the trade and net assets of CCL Technologies Limited have been transferred to the company as follows:

	Book and fair value £000
Fixed assets	
Tangible	13
Current assets	
Stock	3
Debtors	155
Cash	48
	219
Total assets	
Creditors falling due within one year	(197)
Deferred income	(274)
	(252)
Goodwill arising on hive up (see note 9)	1,132
	880
Consideration – satisfied by inter company loans	880

The consideration for the net assets acquired on the transfer was satisfied by an inter company loan. Following the transfer of the trade and net assets, CCL Technologies Limited ceased to trade.

The cost of the company's investment in the companies acquired reflected the underlying fair value of their net assets and goodwill at the time of acquisition. As a result of the subsequent hive up, the value of the company's investment in the subsidiary undertakings transferred fell below the amount at which it was stated in the company's accounting records. Schedule 4 to the Companies Act 1985 requires that the investment be written down accordingly and that the amount be charged as a loss in the company's profit and loss account. However, the directors consider that, as there has been no overall loss to the company, it would fail to give a true and fair view to charge that diminution to the company's profit and loss account for the year and it should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill. The effect of this departure is a net increase in the company's loss for the financial year of £3,373,000 (2006: £1,923,000) and to increase the net cumulative amount of goodwill capitalised, net assets and shareholders funds by £11,312,000 (2006: £14,685,000).

At the year end the company holds the entire issued share capital of 20 dormant and 5 non-trading subsidiary undertakings, all of which are included in the consolidated financial statements up to 31 October 2007.

Notes *(continued)*

12 Stocks

	Group and Company 2007 £000	Group and Company 2006 £000
Finished goods and goods for resale	308	415
	<u><u> </u></u>	<u><u> </u></u>

13 Debtors

	Group and Company 2007 £000	Group and Company 2006 £000
Trade debtors	9,743	11,808
Other debtors	273	351
Prepayments and accrued income	712	1,002
	<u> </u>	<u> </u>
	10,728	13,161
	<u><u> </u></u>	<u><u> </u></u>

Trade debtors for group and company include service contract debtors of £1,053,000 (2006: £1,484,000) due after more than one year.

Included in other debtors is £nil (2006 : £316,855) in respect of corporation tax receivable.

14 Creditors: amounts falling due within one year

	Group 2007 £000	Group 2006 £000	Company 2007 £000	Company 2006 £000
Bank loan and overdraft (see note 15)	1,458	1,000	1,458	1,000
Director's loan	-	900	-	900
Obligations under finance leases (see note 15)	2	13	2	13
Trade creditors	3,278	2,349	3,278	2,349
Amounts owed to group undertakings	-	-	8,024	7,144
Corporation tax	-	270	-	270
Other taxes and social security	748	1,599	748	1,599
Other creditors	140	502	140	502
Accruals	2,085	1,964	2,085	1,964
Deferred consideration	100	200	100	200
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	7,811	8,797	15,835	15,941
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group and Company 2007 £000	Group and Company 2006 £000
Director's loan	-	2,600
Bank loan	3,937	4,940
Obligations under finance leases	-	2
	3,937	7,542
	3,937	7,542

The bank loan and overdraft is secured by a fixed and floating charge over the assets of the company and group.

The director's loan was repaid in full on 31 October 2007.

Analysis of debt:

	Group and Company 2007 £000	Group and Company 2006 £000
Debt can be analysed as falling due:		
In one year or less, or on demand	1,460	1,913
Between one and two years	1,832	1,614
Between two and five years	2,105	5,928
	5,397	9,455
	5,397	9,455

The maturity of obligations under finance leases is as follows:

	Group and Company 2007 £000	Group and Company 2006 £000
Within one year	2	13
In the second to fifth years	-	2
	2	15
	2	15

Obligations under finance leases are secured on the assets to which they relate.

Notes *(continued)*

16 Provisions for liabilities

	Deferred taxation Group and Company £000
At beginning and end of year	- <hr/> <hr/>

There is an unprovided deferred tax asset, the elements of which are as follows:

	Group and Company 2007 £000	Group and Company 2006 £000
Difference between accumulated depreciation and capital allowances	54	49
Tax losses	3,171	3,731
Unprovided deferred tax asset	<hr/> 3,225 <hr/>	<hr/> 3,780 <hr/>

The directors have not recognised this deferred tax asset as they consider it would be imprudent to do so.

Notes (continued)

17 Acquisitions

The company acquired the entire issued share capital of CCL Technologies Limited on 1 November 2006, and the trade of Wentworth Associates on 31 October 2007. The resulting goodwill totalling £1,192,000 has been capitalised and will be written off over 10 years, being the period over which the directors' expect the benefit to be derived.

	Book value £000	Fair value adjustments £000	Fair value £000
Fixed assets			
Tangible	30	(16)	14
Current assets			
Stock	4	(1)	3
Debtors	311	(104)	207
Cash	17	-	17
	<hr/>	<hr/>	<hr/>
Total assets	362	(121)	241
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Creditors falling due within one year	(236)	(11)	(247)
Accruals and deferred income	-	(261)	(261)
	<hr/>	<hr/>	<hr/>
Total liabilities	(236)	(272)	(508)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net assets/(liabilities) acquired	126	(393)	(267)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Goodwill (see note 9)			1,192
			<hr/>
Purchase consideration and cost of acquisitions			925
			<hr/> <hr/>
Satisfied by:			
Cash			925
			<hr/> <hr/>

Fair value adjustments comprise adjustments to fixed assets, stock, debtors, creditors and accruals and deferred income to reflect the directors' assessment of amounts recoverable and payable at acquisition.

The acquired undertakings made a loss after tax of £19,272 from the beginning of their financial period to the date of acquisition. In their previous financial year the loss after tax was £2,121.

Notes *(continued)*

18 Called up share capital

	2007	2006
	£000	£000
<i>Authorised</i>		
50,000,000 (2006: 50,000,000) Ordinary shares of £1 each	50,000	50,000
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
<i>Allotted, called up and fully paid</i>		
30,090,693 (2006: 28,090,693) Ordinary shares of £1 each	30,091	28,091
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>

During the year the company issued 2,000,000 Ordinary shares of £1 each for a total consideration of £3,000,000.

19 Share premium and reserves

Group	Share premium account	Profit and loss account
	£000	£000
At beginning of year	3,700	(18,462)
Loss for the year	-	(3,037)
Premium on share issues, less expenses	1,000	-
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
At end of year	4,700	(21,499)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
 Company	 Share premium account	 Profit and loss account
	£000	£000
At beginning of year	3,700	(18,065)
Loss for the year	-	(3,020)
Premium on share issues, less expenses	1,000	-
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
At end of year	4,700	(21,085)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>

The company's loss for the financial year was £3,020,000 (2006: £7,298,000).

Notes *(continued)*

20 Commitments

(a) Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

	Group and Company 2007 £000	Group and Company 2006 £000
Contracted	20	-
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>

(b) Annual commitments under non-cancellable operating leases are as follows:

	2007 Land and buildings £000	2007 Other £000	2006 Land and buildings £000	2006 Other £000
Group and Company				
Operating leases which expire:				
Within one year	210	5	113	-
In the second to fifth years inclusive	137	959	142	439
Over five years	574	-	608	-
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
	921	964	863	439
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>

21 Pension scheme

The group operates eleven defined contribution pension schemes, all of which have been acquired with subsidiary undertakings. The pension cost charge for the year represents contributions payable by the group to the schemes and amounted to £174,937 (2006: £129,311).

Contributions amounting to £24,454 (2006: £7,353) were payable to the schemes and are included in creditors at the year end.

22 Reconciliation of operating loss to operating cash flows

	2007 £000	2006 £000
Operating loss	(3,145)	(6,997)
Depreciation and amortisation charges	2,586	2,964
Loss on sale of fixed assets	25	14
Decrease in stocks	110	193
Decrease in debtors	2,444	718
Decrease in creditors	(360)	(1,900)
(Decrease)/increase in deferred income	(138)	718
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>
Net cash inflow/(outflow) from operating activities	1,522	(4,290)
	<hr style="border-top: 1px solid black;"/>	<hr style="border-top: 1px solid black;"/>

Notes *(continued)*

23 Analysis of cash flows

	<i>Notes</i>	2007	2006
		£000	£000
Returns on investment and servicing of finance			
Interest received		366	215
Interest paid		(744)	(612)
Interest element of finance lease rental payments		(2)	(4)
		<hr/> (380) <hr/>	<hr/> (401) <hr/>
Capital expenditure			
Purchase of tangible fixed assets		(156)	(963)
Sale of fixed assets		45	970
		<hr/> (111) <hr/>	<hr/> 7 <hr/>
Acquisitions and disposals			
Purchase of subsidiary undertakings and other businesses	<i>17</i>	(925)	(2,689)
Payments in respect of previous acquisitions		(100)	(395)
Sale of business		1,700	432
Cash acquired with subsidiaries	<i>17</i>	17	93
		<hr/> 692 <hr/>	<hr/> (2,559) <hr/>
Financing			
Issue of ordinary share capital		3,000	4,000
Debt due within one year:			
Increase in short term borrowing		-	400
Repayment of secured loans		(4,045)	(178)
Debt due in more than one year:			
New secured loans		-	3,225
New unsecured loans		-	2,600
Capital element of finance lease rental payments		(13)	(37)
		<hr/> (1,058) <hr/>	<hr/> 10,010 <hr/>

Notes (continued)

24 Analysis of net debt

	At beginning of year £000	Cash flow £000	Other non-cash changes £000	At end of year £000
Cash in hand, at bank	5,642	561	-	6,203
Overdraft	(1,000)	-	-	(1,000)
	<hr/>	<hr/>	<hr/>	<hr/>
	4,642	561	-	5,203
Debt due within one year	(900)	4,045	(3,603)	(458)
Debt due after one year	(7,540)	-	3,603	(3,937)
Finance leases	(15)	13	-	(2)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	(3,813)	4,619	-	806
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

25 Post balance sheet events

On 16 May 2008 the company acquired the British based Pegasus and IT infrastructure business of Xperience Group Limited.

26 Related party disclosures

The company is controlled by Graham Wylie, Chairman of the group and principal shareholder of the company.

Related party transactions, all of which were on an arms length basis, were as follows:

Rent paid to Graham Wylie on premises occupied by the group of £292,357 (2006: £288,880). At the balance sheet date £nil (2006: £nil) remained outstanding within creditors.

Fees for professional services of £29,815 (2006: £92,028) payable to UNW LLP. David Stonehouse, Chief Executive of the group is also Chairman of UNW LLP. At the balance sheet date £14,488 (2006: £nil) remained outstanding and is included in creditors.

Technology Services Group Limited invoiced sales of £77,831 (2006: £52,047) to UNW LLP during the year. At the balance sheet date £nil (2006: £10,072) remained outstanding in debtors.

Rent paid to Mark Joynson on premises occupied by the group of £137,157 (2006: £136,713). At the balance sheet date £nil (2006: £1,468) remained outstanding within creditors.

Company Profit and Loss Account
for the year ended 31 October 2007

	2007	2006
	£000	£000
Turnover	33,646	33,399
Cost of sales	(19,001)	(20,637)
	<hr/>	<hr/>
Gross profit	14,645	12,762
Administrative expenses	(17,757)	(19,642)
	<hr/>	<hr/>
Operating loss	(3,112)	(6,880)
Profit on sale of discontinued operations	560	7
Interest receivable and similar income	366	215
Interest payable and similar charges	(750)	(687)
	<hr/>	<hr/>
Loss on ordinary activities before taxation	(2,936)	(7,345)
Tax on loss on ordinary activities	(84)	47
	<hr/>	<hr/>
Loss for the financial year	(3,020)	(7,298)
	<hr/> <hr/>	<hr/> <hr/>

The company had no recognised gains or losses other than the result for the year.

The financial statements were approved by the board of directors on 13 August 2008 and were signed on its behalf by:

DP Davies
Director