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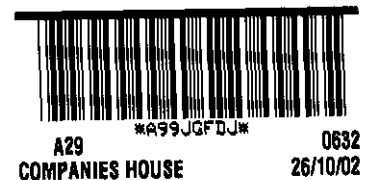
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LMG Systems Limited

Report and Financial Statements

Year Ended

31 December 2001



BDO

BDO Stoy Hayward
Chartered Accountants

LMG SYSTEMS LIMITED

Annual report and financial statements for the year ended 31 December 2001

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Directors

D B George
N D Rowe
R N Philipson-Stow

Secretary and registered office

Temple Secretarial Limited, 16 Old Bailey, London EC4M 7EG

Company number

02155746

Auditors

BDO Stoy Hayward, 66 Broomfield Road, Chelmsford, Essex, CM1 1SW.

LMG SYSTEMS LIMITED

Report of the directors for the year ended 31 December 2001

The directors present their report together with the audited financial statements for the year ended 31 December 2001.

Results and dividends

The profit and loss account is set out on page 4 and shows the loss for the year.

The directors do not recommend the payment of a dividend.

Principal activities, trading review and future developments

The company is an Information Technology services provider to major UK corporate clients and its principal activities are:

- Design and installation of IT cabling infrastructure, and
- Day-to-day connectivity management of ICT equipment connected to the IT cabling infrastructure.

The turnover of £4,256,205 represents the trading period from 1st January until 15th June 2001. On the 15th June 2001 LMG Systems (formerly Line Management Group Ltd) transferred its trade to its parent company, Line Management Group Ltd (formerly LMG Systems Ltd).

With effect from 15th June 2001 LMG Systems Ltd remains as a dormant non- trading subsidiary of the Line Management Group Ltd. liabilities were transferred to Line Management Group Limited.

Directors

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

	‘A’ Ordinary shares of 10p each		‘B’ Ordinary shares of 10p each		Ordinary shares of 10p each	
	2001	2000	2001	2000	2001	2000
D B George	-	247,615	-	-	-	-
N D Rowe	-	-	-	220,550	-	-
R N Philipson-Stow	-	-	-	-	-	-

All the directors are also directors of Line Management Group Limited, this company's parent company and their interests in that company's share capital are disclosed in its financial statements.

Purchase of own shares

During the year the company purchased 16,569 10p ordinary shares, owned by former employees, for a consideration of £33,138 to facilitate a group reorganisation.

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 its profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;

LMG SYSTEMS LIMITED

Report of the directors for the year ended 31 December 2001 (Continued)

Directors' responsibilities (continued)

- state whether applicable accounting standards have been followed, subject to any material departure 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 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.

Charitable donations

During the year the company made charitable donations of £100 (2000 - £4,745).

Auditors

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

By order of the board



N D Rowe
Director

Date 18th October 2002

LMG SYSTEMS LIMITED

Report of the independent auditors

To the shareholders of LMG Systems Limited

We have audited the financial statements of LMG Systems Limited on pages 4 to 17 which have been prepared under the accounting policies set out on pages 7 and 8.

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.

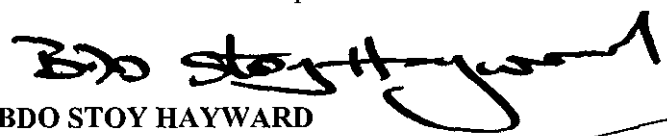
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


BDO STOY HAYWARD
Chartered Accountants
and Registered Auditors
Chelmsford

24 October 2002

LMG SYSTEMS LIMITED**Profit and loss account for the year ended 31 December 2001**

	Note	2001 £	2000 £
Turnover	1 & 2	4,256,205	8,576,221
Cost of sales		3,673,599	7,401,162
		<hr/>	<hr/>
Gross profit		582,606	1,175,059
Administrative expenses		600,446	1,278,948
		<hr/>	<hr/>
Operating loss	5	(17,840)	(103,889)
Investment income		15	47
Interest payable	6	(18,955)	(24,312)
		<hr/>	<hr/>
Loss on ordinary activities before taxation		(36,780)	(128,154)
Taxation	7	-	6,502
		<hr/>	<hr/>
Loss for the financial year transferred to reserves	17	(36,780)	(121,652)
		<hr/>	<hr/>

All amounts relate to continuing activities.

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

The notes on pages 7 to 17 form part of these financial statements.

LMG SYSTEMS LIMITED

Balance sheet at 31 December 2001

	Note	2001 £	2001 £	2000 £	2000 £
Fixed assets					
Tangible assets	8		-		180,314
Investments	9		-		46,592
			-		226,906
Current assets					
Stocks	10	-		125,606	
Debtors	11	320,168		2,306,599	
Investment	12	-		841	
Cash at bank and in hand		-		20	
		320,168		2,433,066	
Creditors: amounts falling due within one year	13	-		2,113,834	
Net current assets			320,168		319,232
Total assets less current liabilities			320,168		546,138
Creditors: amounts falling due after more than one year	14		-		156,052
Net assets			320,168		390,086
Capital and reserves					
Called up share capital - equity	16		48,090		49,747
Share premium account - equity	17		479		479
Capital redemption reserve - equity	17		2,063		406
Profit and loss account - equity	17		269,536		339,454
Shareholders' funds	18		320,168		390,086

These accounts were approved by the Board on 18th October 2002


N D Rowe
Director

The notes on pages 7 to 17 form part of these financial statements.

LMG SYSTEMS LIMITED
Cash flow statement for the year ended 31 December 2001

	Note	2001 £	2001 £	2000 £	2000 £
Net cash inflow from operating activities	22		255,773		67,243
Returns on investments and servicing of finance					
Interest paid		(9,612)		(23,615)	
Finance lease and hire purchase interest		(2,587)		(697)	
Investment income		15		47	
Net cash outflow from returns on investments and servicing of finance			(12,184)		(24,265)
Taxation					
UK corporation tax paid			-		(52,438)
Capital expenditure and financial investment					
Payments to acquire fixed assets		(44,707)		(47,103)	
Net cash outflow for capital expenditure and financial investments			(44,707)		(47,103)
Acquisitions and disposals					
Overdraft transferred to parent	21		312,574		-
Net cash inflow/(outflow) before financing			511,456		(56,563)
Financing					
Capital element of finance lease and hire purchase payments	24	(15,083)		-	
Bank loan advanced	24	-		175,000	
Bank loan repayments	24	(75,000)		(161,091)	
		(90,083)		8,978	
Share capital purchased	17	(33,138)		(3,064)	
			(123,221)		5,914
Increase/(decrease) in cash	23		388,235		(50,649)

The notes on pages 7 to 17 form part of these financial statements.

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001

1 Accounting policies

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

The following accounting policies have been applied:

Investments in subsidiary undertakings

The financial statements contain information about LMG Systems Limited as an individual company and do not contain consolidated information as the parent of a group. The company has taken advantage of the exemption conferred by S.248 of the Companies Act 1985 not to produce consolidated financial statements as the group it heads qualifies as a medium group.

Turnover

Turnover represents the invoiced amounts of goods sold and services provided, exclusive of value added tax and trade discounts, after taking account of work in progress on unfinished jobs.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all fixed assets, over their expected useful lives, on a straight line basis. It is calculated at the following rates:

Freehold land and buildings	-	20% per annum
Leasehold improvements	-	25% per annum
Plant and equipment	-	25% per annum
Computer equipment	-	25% per annum

Valuation of investments

Investments held as fixed assets are stated at cost less any provision for a permanent diminution in value. Investments held as current assets are stated at the lower of cost and market value.

Stocks

Stocks are valued at the lower of cost and net realisable value less applicable payments on account. Cost is calculated as follows:

Raw materials	-	cost of purchase on a first in, first out basis
Work in progress	-	cost of raw materials and labour together with attributable overheads

Net realisable value is based on estimated selling price less further costs to completion and disposal.

1 Accounting policies (*continued*)

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

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 so that the interest element of the payment is charged to the profit and loss account over the period of the lease and 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.

Reverse premiums and similar incentives received to enter into operating lease agreements are released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

Pension costs

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

Product development and research

Product development and research costs are charged to the profit and loss account in the year in which they are incurred, except when individual projects satisfy the following criteria: the project is clearly defined and related expenditure is separately identifiable; the project is technically feasible and commercially viable; current and future costs will be exceeded by future sales; and adequate resources exist for the project to be completed. In such circumstances the costs are capitalised and amortised over a period not exceeding five years.

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001 (Continued)

2 Turnover

Turnover is wholly attributable to the company's principal activities carried out in the United Kingdom.

3 Employees

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

	2001 Number	2000 Number
Office and management	29	30
Engineers	74	73
	<u>103</u>	<u>103</u>
Staff costs consist of:	£	£
Wages and salaries	1,920,451	4,091,452
Social security costs	206,732	399,257
Other pension costs	63,300	132,110
	<u>2,190,483</u>	<u>4,622,819</u>

This includes remuneration paid to directors of the company as set out in note 4.

4 Directors

	2001 £	2000 £
Directors emoluments and pension contributions were:		
Remuneration for management services	131,327	283,251
Pension contributions to the defined contribution pension scheme	17,250	51,000
	<u>148,577</u>	<u>334,251</u>
The emoluments of the highest paid director were:	<u>54,729</u>	<u>147,242</u>
Pension contributions in respect of the highest paid director were:	<u>9,000</u>	<u>25,500</u>

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001 (Continued)

5 Operating loss

	2001 £	2000 £
This has been arrived at after charging:		
Depreciation	38,485	131,194
Operating lease rentals - Plant and machinery	7,837	14,994
- Land and buildings	26,500	42,400
Auditors remuneration - Audit services	10,002	18,000
- Other services	13,230	35,903
	<u> </u>	<u> </u>

6 Interest payable

	2001 £	2000 £
Bank loans and overdrafts	16,368	23,615
Hire purchase	2,587	697
	<u> </u>	<u> </u>
	18,955	24,312
	<u> </u>	<u> </u>

7 Taxation

	2001 £	2000 £
Adjustment relating to prior years	-	(6,502)
	<u> </u>	<u> </u>
	-	(6,502)
	<u> </u>	<u> </u>

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001 (Continued)

8 Tangible assets

	Freehold land and buildings £	Leasehold improvements £	Plant and equipment £	Computer equipment £	Total £
<i>Cost</i>					
At 1 January 2001	24,218	85,572	247,201	283,108	640,099
Additions	-	-	3,238	51,902	55,140
Transfer to group company	(24,218)	(85,572)	(250,439)	(335,010)	(695,239)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 2001	5,000	81,515	237,058	136,212	459,785
Provided for the year	2,500	1,002	3,145	31,838	38,485
Transfer to group company	(7,500)	(82,517)	(240,203)	(168,050)	(498,270)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2001	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	19,218	4,057	10,143	146,896	180,314
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of tangible fixed assets includes an amount of £Nil (2000 - £45,566) in respect of assets held under hire purchase contracts. The related depreciation charge for the period was £7,040 (2000 - £3,038).

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001 (Continued)

9 Fixed asset investments

	£
<i>Cost</i>	
At 1 January 2001	46,592
Transfer to group company	(46,592)
	<u> </u>
At 31 December 2001	<u> </u>

10 Stocks

	2001 £	2000 £
Raw materials and consumables	-	85,103
Work in progress	-	40,503
	<u> </u>	<u> </u>
	-	125,606
	<u> </u>	<u> </u>

The replacement cost of stock does not materially differ from the balance sheet value.

11 Debtors

	2001 £	2000 £
Amounts receivable within one year		
Trade debtors	-	1,949,112
Other debtors	-	357,487
Amounts due from group companies	320,168	-
	<u> </u>	<u> </u>
	320,168	2,306,599
	<u> </u>	<u> </u>

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001 (Continued)

12 Current asset investment

	2001 £	2000 £
Cost of listed investment	-	841
Market value	-	1,060

13 Creditors: amounts falling due within one year

	2001 £	2000 £
Bank loan (secured)	-	75,000
Bank overdraft (secured)	-	388,255
Trade creditors	-	665,809
Amounts owed to subsidiary undertakings	-	46,592
Other creditors	-	232,291
Taxation and social security	-	272,161
Corporation tax	-	7,464
Obligations under hire purchase contracts	-	17,621
Accruals and deferred income	-	408,641
	-	2,113,834

Bank borrowings are secured by a mortgage debenture incorporating fixed and floating charges over the assets of the company and a first charge over the lease in respect of the West India Dock Road premises owned by the Line Management Executive Pension Scheme.

14 Creditors: amounts falling due after more than one year

	2001 £	2000 £
Other creditors	-	130,000
Obligations under hire purchase contracts	-	26,052
	-	156,052

15 Deferred taxation

Asset:	2001 Unprovided £	2001 Provided in accounts £	2000 Unprovided £	2000 Provided in accounts £
Capital allowances	-	-	10,987	-

LMG SYSTEMS LIMITEDDRAFT, 16 October 2002, 14600a 2001 (*Continued*)**16 Share capital**

	2001 £	2000 £
<i>Authorised</i>		
531,835 Ordinary shares of 10p each	53,183	53,183
247,615 'A' Ordinary shares of 10p each	24,762	24,762
220,550 'B' Ordinary shares of 10p each	22,055	22,055
<i>Allotted called up and fully paid</i>		
12,734 (2000 – 29,303) Ordinary shares of 10p each	1,273	2,930
247,615 'A' Ordinary shares of 10p each	24,762	24,762
220,550 'B' Ordinary shares of 10p each	22,055	22,055
	48,090	49,747

During the year the company purchased 16,569 10p ordinary shares, previously owned by employees, for a consideration of £33,138.

17 Reserves

Profit and loss account		£
At 1 January 2001		339,454
Loss for the year		(36,780)
Purchase of own shares		(33,138)
At 31 December 2001		269,536
Share premium account	2001 £	2000 £
On sale of shares above par	479	479
Capital redemption reserve		£
At 1 January 2001		406
On purchase of own shares		1,657
At 31 December 2001		2,063

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001 (Continued)

18 Reconciliation of movements in shareholders' funds	2001 £	2000 £
Loss for the financial year	(36,780)	(121,652)
Purchase of own shares	(33,138)	(3,064)
Net reduction in shareholders' funds	(69,918)	(124,716)
Opening shareholders' funds	390,086	514,802
Closing shareholders' funds	320,168	390,086

19 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge, including payments in respect of the two directors who served during the year (2000 - 2), represents contributions payable by the company to the fund. At 31 December 2001 there were no unpaid contributions (2000 - £Nil).

20 Commitments under operating leases

As at 31 December 2001, the company had annual commitments under non-cancellable operating leases as set out below:

	2001 Land and buildings £	2001 Other £	2000 Land and buildings £	2000 Other £
Operating leases which expire:				
Between two and five years	-	-	-	13,009
Over five years	-	-	53,000	-
	-	-	53,000	13,009

21 Disposal of trade

With effect from 15 June 2001 LMG Systems Limited (formerly Line Management Group Limited) transferred its trade to its parent company, Line Management Group Limited (formerly LMG Systems Limited).

The balance sheet at the date of transfer was as follows:

	£
Tangible fixed assets	196,969
Fixed asset investments	46,592
Stocks	137,232
Debtors	1,659,644
Current investments	841
Overdraft	(312,574)
Creditors	(1,408,536)
Net assets transferred	320,168

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001 *(Continued)*

22 Reconciliation of operating loss to net cash inflow from operating activities

	2001 £	2000 £
Operating loss	(17,840)	(103,889)
Depreciation - tangible fixed assets	38,485	131,194
(Increase)/decrease in stocks	(11,626)	37,855
Decrease/(increase) in debtors	646,955	(926,993)
(Decrease)/increase in creditors	(400,201)	929,076
	<hr/>	<hr/>
Net cash inflow from operating activities	255,773	67,243
	<hr/>	<hr/>

23 Reconciliation of net cash flow to movement in net debt

	2001 £	2001 £	2000 £	2000 £
Increase/(decrease) in cash in the year	388,235		(50,649)	
Cash outflow/(inflow) from debt and lease financing	90,083		(8,978)	
	<hr/>		<hr/>	
Change in net debt resulting from cash flows		478,318		(59,627)
New hire purchase contracts		(10,433)		(48,604)
Transfer of debt to parent company		39,023		-
		<hr/>		<hr/>
Movement in debt in the year		506,908		(108,231)
Net debt at 1 January 2001		(506,908)		(398,677)
		<hr/>		<hr/>
Net debt at 31 December 2001		-		(506,908)
		<hr/>		<hr/>

24 Analysis of net debt

	At 31 December 2000 £	Cash (excluding cash flow and overdrafts) £	Disposal Non-cash changes £	At 31 December 2001 £
Cash at bank and in hand	20	(20)	-	-
Overdrafts	(388,255)	388,255	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	(388,235)	388,235	-	-
Hire purchase contracts	(43,673)	15,083	39,023	(10,433)
Bank loan	(75,000)	75,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	(506,908)	478,318	39,023	(10,433)
	<hr/>	<hr/>	<hr/>	<hr/>

LMG SYSTEMS LIMITED

Notes forming part of the financial statements for the year ended 31 December 2001 (*Continued*)

25 Related party transactions

The company is liable to pay an annual rent of £53,000 to the Line Management Executive Pension Scheme in respect of the lease for the West India Dock Road premises occupied by the company.

The members of the pension scheme are Mr D B George, Mr N D Rowe, former directors Mr A Clarke and Mr J H Payne and Mrs L George.

Included within other creditors is 2001 £Nil (2000 : £250,000) the following amounts due to the Line Management Executive Pension Scheme.

26 Ultimate parent company

The company's ultimate parent company is Line Management Group Limited, which is the parent of both the smallest and largest groups of which the company is a member.

The ultimate controlling party is N D Rowe.