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**LMG Systems Limited**  
**(Formerly Line Management Group**  
**Limited)**

Report and Financial Statements

Year Ended  
31 December 2000



**BDO**

BDO Stoy Hayward  
Chartered Accountants

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Annual report and financial statements for the year ended 31 December 2000**

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**Directors**

D B George  
N D Rowe  
R N Philipson-Stow

**Secretary and registered office**

N D Rowe, 66 Broomfield Road, Chelmsford, Essex, CM1 1SW.

**Company number**

02155746

**Auditors**

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

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Report of the directors for the year ended 31 December 2000**

The directors present their report together with the audited financial statements for the year ended 31 December 2000.

**Results and dividends**

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

The directors do not recommend the payment of a dividend.

**Principal activities, trading review and future developments**

The principal activities of the group are the design, installation and management of IT (Information Technology) infrastructure networks.

The year 2000 was a difficult year for Line Management and for other similar organisations providing IT infrastructure installation and support services to corporate clients. The majority of clients and potential clients had invested heavily in new and replacement IT infrastructure and systems in the previous years leading up to the end of the millennium. Consequently there were very few new or repeat business opportunities for IT infrastructure installation and support services during the year 2000.

The results are thus a reflection of a dismal performance during the first half and following a re-appraisal and re-organisation of the business at the half way mark, a second half improvement did not prevent the posting of a loss of £121,652 for the full year.

Trading has continued to improve in 2001 and the business is now re-focused on its core strengths of design, installation and support of IT infrastructure.

Further investment in marketing, financial management, resource management and other WEB based systems planned for 2001 should enable Line Management to expand without any significant increase in overhead.

Future prospects for 2001 and beyond remain favourable as there is considerable activity in the office development and refurbishment market where Line Management Installation Services (the brand for the Group's IT cabling design and installation services) is a prime supplier of IT infrastructure, design and installation services.

Activity also remains positive in the IT Outsourcing market where we provide support services direct to clients and as a second tier specialist supplier to primary suppliers that include BT Syntegra and Nortel.

On 15 June 2001 the company changed its name from Line Management Group Limited to LMG Systems Limited.

**Post balance sheet events**

Subsequent to the year end the entire share capital of the company was purchased by Line Management Group Limited. Following its acquisition this company's trade assets and 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	
	2000	1999	2000	1999	2000	1999
D B George		247,615	-	-	-	-
N D Rowe		-	-	220,550	-	-
R H Philipson-Stow		-	-	-	-	-

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Report of the directors for the year ended 31 December 2000 (Continued)**

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**Purchase of own shares**

During the year the company purchased 1,532 10p ordinary shares, previously owned by an employee, for a consideration of £3,064 upon his resignation.

**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 group and the company and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material 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 group 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Charitable donations**

During the year the group made charitable donations of £2,225 (1999 - £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 24<sup>th</sup> October 2001

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Report of the independent auditors**

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**To the shareholders of LMG Systems Limited**

We have audited the financial statements of LMG Systems Limited on pages 4 to 18 which have been prepared under the accounting policies set out on pages 8 and 9.

*Respective responsibilities of directors and auditors*

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

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

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

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

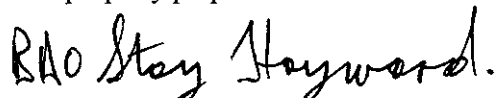
*Basis of opinion*

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 and the group as at 31 December 2000 and of its loss for the group 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

30 October 2001

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Consolidated profit and loss account for the year ended 31 December 2000**

	Note	2000 £	1999 £
<b>Turnover</b>	1 & 2	<b>8,576,221</b>	9,406,025
Cost of sales		<b>7,401,162</b>	7,757,909
		<hr/>	<hr/>
<b>Gross profit</b>		<b>1,175,059</b>	1,648,116
Administrative expenses		<b>1,278,948</b>	1,460,750
		<hr/>	<hr/>
<b>Operating (loss)/profit</b>	5	<b>(103,889)</b>	187,366
Investment income		<b>47</b>	1,164
Interest payable	6	<b>(24,312)</b>	(14,148)
		<hr/>	<hr/>
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(128,154)</b>	174,382
Taxation	7	<b>6,502</b>	(32,074)
		<hr/>	<hr/>
<b>(Loss)/profit for the financial year transferred to reserves</b>	17	<b>(121,652)</b>	142,308
		<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 8 to 18 form part of these financial statements.

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Consolidated balance sheet at 31 December 2000**

	Note	2000 £	2000 £	1999 £	1999 £
<b>Fixed assets</b>					
Tangible assets	8		180,314		215,801
<b>Current assets</b>					
Stocks	10	125,606		163,461	
Debtors	11	2,306,599		1,379,606	
Investment	12	841		841	
Cash at bank and in hand		20		187	
		2,433,066		1,544,095	
<b>Creditors: amounts falling due within one year</b>	13	2,067,242		1,245,094	
<b>Net current assets</b>			365,824		299,001
<b>Total assets less current liabilities</b>			546,138		514,802
<b>Creditors: amounts falling due after more than one year</b>	14		156,052		-
<b>Net assets</b>			390,086		514,802
<b>Capital and reserves</b>					
Called up share capital - equity	16		49,747		49,900
Share premium account - equity	17		479		479
Capital redemption reserve - equity	17		406		253
Profit and loss account - equity	17		339,454		464,170
<b>Shareholders' funds</b>	18		390,086		514,802

These accounts were approved by the Board on 24<sup>th</sup> October, 2001

  
N D Rowe  
Director

The notes on pages 8 to 18 form part of these financial statements.

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Balance sheet at 31 December 2000**

	Note	2000 £	2000 £	1999 £	1999 £
<b>Fixed assets</b>					
Tangible assets	8		180,314		215,801
Investments	9		46,592		46,592
			<hr/>		<hr/>
			226,906		262,393
<b>Current assets</b>					
Stocks	10	125,606		163,461	
Debtors	11	2,306,599		1,379,606	
Investment	12	841		841	
Cash at bank and in hand		20		187	
		<hr/>		<hr/>	
		2,433,066		1,544,095	
<b>Creditors: amounts falling due within one year</b>	13	2,113,834		1,291,686	
		<hr/>		<hr/>	
<b>Net current assets</b>			319,232		252,409
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			546,138		-
<b>Creditors: amounts falling due after more than one year</b>	14		156,052		-
			<hr/>		<hr/>
<b>Net assets</b>			390,086		514,802
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital - equity	16		49,747		49,900
Share premium account - equity	17		479		479
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<b>Shareholders' funds</b>	18		390,086		514,802
			<hr/>		<hr/>

These accounts were approved by the Board on 24<sup>th</sup> October 2001



N D Rowe  
**Director**

The notes on pages 8 to 18 form part of these financial statements.



**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Consolidated cash flow statement for the year ended 31 December 2000**

	Note	2000 £	2000 £	1999 £	1999 £
<b>Net cash inflow/(outflow) from operating activities</b>	21		67,243		(121,353)
<b>Returns on investments and servicing of finance</b>					
Interest paid		(23,615)		(12,601)	
Finance lease and hire purchase interest		(697)		(1,547)	
Investment income		47		1,164	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(24,265)		(12,984)
<b>Taxation</b>					
UK corporation tax paid			(52,438)		(86,000)
<b>Capital expenditure and financial investment</b>					
Payments to acquire fixed assets		(47,103)		(88,156)	
Sale of fixed assets		-		23,499	
<b>Net cash outflow for capital expenditure and financial investments</b>			(47,103)		(64,657)
<b>Net cash outflow before financing</b>			(56,563)		(284,994)
<b>Financing</b>					
Capital element of finance lease and hire purchase payments	23	(4,931)		(14,090)	
Bank loan advanced	23	175,000		120,000	
Bank loan repayments	23	(161,091)		(93,303)	
		8,978		12,607	
Share capital purchased	16	(3,064)		(2,000)	
			5,914		10,607
<b>Decrease in cash</b>	22		(50,649)		(274,387)

The notes on pages 8 to 18 form part of these financial statements.

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Notes forming part of the financial statements for the year ended 31 December 2000**

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**1 Accounting policies**

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

The company has taken advantage of the exemption from presenting its own profit and loss account. The consolidated profit for the financial period includes a loss of £121,652 (1999 – profit £142,308) which is dealt with in the financial statements of the parent company.

The following accounting policies have been applied:

*Basis of consolidation*

The consolidated financial statements incorporate the results of LMG Systems Limited (Formerly Line Management Group Limited) and all of its subsidiaries at 31 December 2000 using the merger method of accounting.

*Merger accounting*

Where merger accounting is used, the investment is recorded in the company's balance sheet at the nominal value of shares issued together with the fair value of any additional consideration paid.

In the group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the group. The results of such subsidiaries are included for the whole period in the year they join the group. The corresponding figures for the previous year include their results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the group as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the group and those issued by the group to acquire them is taken to reserves.

*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
Motor vehicles	-	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.

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Notes forming part of the financial statements for the year ended 31 December 2000 (*Continued*)**

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**1 Accounting policies (*continued*)**

*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.

*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**  
**(Formerly Line Management Group Limited)**

**Notes forming part of the financial statements for the year ended 31 December 2000 (Continued)**

**2 Turnover**

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

**3 Employees**

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

	2000 Number	1999 Number
Office and management	30	34
Engineers	73	43
	<hr/> 103	<hr/> 77
	<hr/> <hr/>	<hr/> <hr/>
Staff costs consist of:	£	£
Wages and salaries	4,091,452	2,893,087
Social security costs	399,257	399,514
Other pension costs	132,110	261,804
	<hr/> 4,622,819	<hr/> 3,554,405
	<hr/> <hr/>	<hr/> <hr/>

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

**4 Directors**

	2000 £	1999 £
Directors emoluments and pension contributions were:		
Remuneration for management services	283,251	324,930
Pension contributions to the defined contribution pension scheme	51,000	204,000
Compensation for loss of office	-	30,250
	<hr/> 334,251	<hr/> 559,180
	<hr/> <hr/>	<hr/> <hr/>
The emoluments of the highest paid director were:	147,242	128,853
	<hr/> <hr/>	<hr/> <hr/>
Pension contributions in respect of the highest paid director were:	25,500	90,000
	<hr/> <hr/>	<hr/> <hr/>

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

Notes forming part of the financial statements for the year ended 31 December 2000 *(Continued)*

**5 Operating (loss)/profit**

	2000 £	1999 £
This has been arrived at after charging/(crediting):		
Depreciation	131,194	131,644
Operating lease rentals - Plant and machinery	14,994	82,283
- Land and buildings	42,400	54,337
Auditors remuneration - Audit services	18,000	18,000
- Other services	35,903	24,673
Profit on sale of tangible fixed assets	-	(17,141)
	<u>          </u>	<u>          </u>

**6 Interest payable**

	2000 £	1999 £
Bank loans and overdrafts	23,615	12,601
Hire purchase	697	1,547
	<u>          </u>	<u>          </u>
	24,312	14,148
	<u>          </u>	<u>          </u>

**7 Taxation**

	2000 £	1999 £
UK corporation tax - current year	-	57,500
Adjustment relating to prior years	(6,502)	(25,426)
	<u>          </u>	<u>          </u>
	(6,502)	32,074
	<u>          </u>	<u>          </u>

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

Notes forming part of the financial statements for the year ended 31 December 2000 *(Continued)*

**8 Tangible assets**

<b>Group and Company</b>	<b>Freehold land and buildings £</b>	<b>Leasehold improvements £</b>	<b>Plant and equipment £</b>	<b>Computer equipment £</b>	<b>Total £</b>
<i>Cost</i>					
At 1 January 2000	24,218	85,572	307,168	275,262	692,220
Additions	-	-	2,841	92,866	95,707
Disposals	-	-	(62,808)	(85,020)	(147,828)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	<b>24,218</b>	<b>85,572</b>	<b>247,201</b>	<b>283,108</b>	<b>640,099</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 1 January 2000	-	60,171	252,882	163,366	476,419
Provided for the year	5,000	21,344	46,984	57,866	131,194
Disposals	-	-	(62,808)	(85,020)	(147,828)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2000	<b>5,000</b>	<b>81,515</b>	<b>237,058</b>	<b>136,212</b>	<b>459,785</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 December 2000	<b>19,218</b>	<b>4,057</b>	<b>10,143</b>	<b>146,896</b>	<b>180,314</b>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1999	24,218	25,401	54,286	111,896	215,801
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The net book value of tangible fixed assets includes an amount of £45,566 (1999 - £Nil) in respect of assets held under hire purchase contracts. The related depreciation charge for the year was £3,038 (1999 - £Nil).

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Notes forming part of the financial statements for the year ended 31 December 2000 (Continued)**

**9 Fixed asset investments**

	<b>Company £</b>
<i>Cost</i>	
At 1 January 2000 and at 31 December 2000	<b>46,592</b>

The following were subsidiary undertakings at the end of the year and have all been included in the consolidated financial statements:

<b>Name</b>	<b>Country of registration</b>	<b>Proportion of ordinary share capital held</b>	<b>Nature of business</b>
Line Management Installation Services Limited	England	100%	Dormant
Line Management Business Services Limited	England	100%	Dormant
Line Management Communications Services Limited	England	100%	Dormant

**10 Stocks**

	<b>Group and Company 2000 £</b>	<b>1999 £</b>
Raw materials and consumables	<b>85,103</b>	54,323
Work in progress	<b>40,503</b>	109,138
	<b>125,606</b>	163,461

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

**11 Debtors**

	<b>Group 2000 £</b>	<b>Group 1999 £</b>	<b>Company 2000 £</b>	<b>Company 1999 £</b>
Amounts receivable within one year				
Trade debtors	<b>1,949,112</b>	1,357,884	<b>1,949,112</b>	1,357,884
Other debtors	<b>357,487</b>	21,722	<b>357,487</b>	21,722
	<b>2,306,599</b>	1,379,606	<b>2,306,599</b>	1,379,606

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

Notes forming part of the financial statements for the year ended 31 December 2000 *(Continued)*

**12 Current asset investment**

	<b>Group and Company</b>	
	<b>2000</b>	<b>1999</b>
	<b>£</b>	<b>£</b>
Cost of listed investment	841	841
Market value	1,060	846

**13 Creditors: amounts falling due within one year**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Bank loan (secured)	75,000	61,091	75,000	61,091
Bank overdraft (secured)	388,255	337,773	388,255	337,773
Trade creditors	665,809	279,763	665,809	279,763
Amounts owed to subsidiary undertakings	-	-	46,592	46,592
Taxation and social security	272,161	214,174	272,161	214,174
Corporation tax	7,464	66,404	7,464	66,404
Other creditors	232,291	63,000	232,291	63,000
Accruals and deferred income	408,641	222,889	408,641	222,889
Obligations under hire purchase contracts	17,621	-	17,621	-
	2,067,242	1,245,094	2,113,834	1,291,686

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**

	<b>Group</b>	<b>Group</b>	<b>Company</b>	<b>Company</b>
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Other creditors	130,000	-	130,000	-
Obligations under hire purchase contracts	26,052	-	26,052	-
	156,052	-	156,052	-

**15 Deferred taxation**

	<b>2000</b>	<b>2000</b>	<b>1999</b>	<b>1999</b>
<b>Asset:</b>	<b>Unprovided</b>	<b>Provided in</b>	<b>Unprovided</b>	<b>Provided in</b>
<b>Group and Company</b>	<b>£</b>	<b>accounts</b>	<b>£</b>	<b>accounts</b>
Capital allowances	10,987	-	387	-



**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

Notes forming part of the financial statements for the year ended 31 December 2000 (*Continued*)

**16 Share capital**

	2000 £	1999 £
<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>		
29,303 (1999 - 30,835) Ordinary shares of 10p each	2,930	3,083
247,615 'A' Ordinary shares of 10p each	24,762	24,762
220,550 'B' Ordinary shares of 10p each	22,055	22,055
	49,747	49,900

During the year the company purchased 1,532 10p ordinary shares, previously owned by an employee for a consideration of £3,064 upon his resignation.

**17 Reserves**

	Group and Company £	
Profit and loss account		
At 1 January 2000		464,170
Loss for the year		(121,652)
Purchase of own shares		(3,064)
At 31 December 2000		339,454
Share premium account	2000 £	1999 £
On sale of shares above par	479	479
Capital redemption reserve		
On purchase of own shares	406	253

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

Notes forming part of the financial statements for the year ended 31 December 2000 *(Continued)*

**18 Reconciliation of movements in shareholders' funds**

	<b>Group and Company</b>	
	<b>2000</b>	<b>1999</b>
	<b>£</b>	<b>£</b>
(Loss)/profit for the financial year	(121,652)	142,308
Purchase of own shares	(3,064)	(2,000)
<b>Net (reduction)/addition to shareholders' funds</b>	<b>(124,716)</b>	<b>140,308</b>
Opening shareholders' funds	<b>514,802</b>	<b>374,494</b>
<b>Closing shareholders' funds</b>	<b>390,086</b>	<b>514,802</b>

**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 2 directors who served during the year (1999 - 3), represents contributions payable by the company to the fund. At 31 December 2000 there were no unpaid contributions (1999 - £Nil).

**20 Commitments under operating leases**

As at 31 December 2000, the group and the company had annual commitments under non-cancellable operating leases as set out below:

	<b>Group and Company</b>			
	<b>2000</b>	<b>2000</b>	<b>1999</b>	<b>1999</b>
	<b>Land and</b>	<b>Other</b>	<b>Land and</b>	<b>Other</b>
	<b>buildings</b>		<b>buildings</b>	
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
Operating leases which expire:				
Within one year	-	-	-	16,514
Between two and five years	-	13,009	-	-
Over five years	53,000	-	53,000	-
	<b>53,000</b>	<b>13,009</b>	<b>53,000</b>	<b>16,514</b>

**LMG SYSTEMS LIMITED**  
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Notes forming part of the financial statements for the year ended 31 December 2000 *(Continued)*

**21 Reconciliation of operating profit to net cash (outflow)/inflow from operating activities**

	2000 £	1999 £
Operating (loss)/profit	(103,889)	187,366
Depreciation - tangible fixed assets	131,194	131,644
Profit on sale of fixed assets	-	(17,141)
Decrease in stocks	37,855	142,051
(Increase)/decrease in debtors	(926,993)	348,886
Increase/(decrease) in creditors	929,076	(914,159)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	67,243	(121,353)
	<hr/>	<hr/>

**22 Reconciliation of net cash flow to movement in net debt**

	2000 £	2000 £	1999 £	1999 £
Decrease in cash in the year	(125,649)		(274,387)	
Cash outflow/(inflow) from debt and lease financing	66,022		(12,607)	
	<hr/>		<hr/>	
Change in net debt resulting from cash flows		(59,627)		(286,994)
New hire purchase contracts		(48,604)		-
		<hr/>		<hr/>
Movement in debt in the year		(108,231)		(286,994)
Net debt at 1 January 2000		(398,677)		(111,683)
		<hr/>		<hr/>
Net debt at 31 December 2000		(506,908)		(398,677)
		<hr/>		<hr/>

**23 Analysis of net debt**

	At 31 December 1999 £	Cash flow £	Non-cash changes £	At 31 December 2000 £
Cash at bank and in hand	187	(167)	-	20
Overdrafts	(337,773)	(50,482)	-	(388,255)
	<hr/>	<hr/>	<hr/>	<hr/>
	(337,586)	(50,649)	-	(388,235)
Hire purchase contracts	-	4,931	(48,604)	(43,673)
Bank loan	(61,091)	(13,909)	-	(75,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Total	(398,677)	(59,627)	(48,604)	(506,908)
	<hr/>	<hr/>	<hr/>	<hr/>

**LMG SYSTEMS LIMITED**  
**(Formerly Line Management Group Limited)**

**Notes forming part of the financial statements for the year ended 31 December 2000 (Continued)**

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**24 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 and former directors Mr A Clarke and Mr J H Payne.

Included within other creditors are the following amounts due to D B George and N D Rowe both directors of the company:

	<b>2000</b>	<b>1999</b>
	<b>£</b>	<b>£</b>
D B George	125,000	-
N D Rowe	125,000	-
	<hr/>	<hr/>

**25 Post balance sheet event**

Subsequent to the year end the entire share capital of the company was purchased by Line Management Group Limited. Following its acquisition this company's trade assets and liabilities were transferred to Line Management Group Limited.

**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.