

# **Snowdrop Systems Limited**

Financial statements

For the year ended 31 December 2006



**Company No. 2649780**

## Company information

<b>Company registration number</b>	2649780
<b>Registered office</b>	4 Witan Way WITNEY Oxfordshire OX28 6FF
<b>Directors</b>	M L Richards T J Tobin
<b>Secretary</b>	M L Richards
<b>Auditor</b>	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1 Westminster Way OXFORD OX2 0PZ

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## Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 December 2006

### Principal activities and business review

The company is principally engaged in computer consultancy, software development and training

### Results and dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements. During the course of the year, the trade and assets of the subsidiary company HRH Business Payrolls (UK) Limited were transferred to Snowdrop Systems Limited

The directors have not recommended a dividend

### The directors and their interests in the shares of the company

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows

	Ordinary Shares of £1 each	
	At 31 December 2006	At 1 January 2006
M L Richards	17,250	17,250
T J Tobin	<u>2,000</u>	<u>2,000</u>

During 2001 the company granted share options to employees of the company and members of the board. Details of the options are set out in note 21 to the financial statements

### Directors' and Officers' liability insurance

The company has not, as permitted by S310(s) of the Companies Act 1985, maintained insurance cover on behalf of the Directors and Company Secretary indemnifying them against certain liabilities which may be incurred by them in relation to the company

### Directors' responsibilities

The directors are responsible for preparing the Report of the directors 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these 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
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.


In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

**Auditor**

Grant Thornton UK LLP offer themselves for reappointment as auditor in accordance with section 385 of the Companies Act 1985.

BY ORDER OF THE BOARD



M L Richards  
Secretary  
3 May 2007

## Report of the independent auditor to the members of Snowdrop Systems Limited

We have audited the financial statements of Snowdrop Systems Limited for the year ended 31 December 2006 which comprise the principal accounting policies, profit and loss account, balance sheet and notes 1 to 22. 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 auditor**

The directors' responsibilities for preparing the Report of the Directors and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 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 report of the directors 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 Report of the Directors 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 International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

# Report of the independent auditors to the members of Snowdrop Systems Limited (continued)

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit 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 Report of the Directors is consistent with the financial statements for the year ended 31 December 2006

Grant Thornton UK LLP

GRANT THORNTON UK LLP  
REGISTERED AUDITORS  
CHARTERED ACCOUNTANTS  
OXFORD  
3 May 2007

## Principal accounting policies

### **Basis of accounting**

The financial statements have been prepared under the historical cost convention

The principal accounting policies of the company have remained unchanged from the previous year apart from the adoption of FRS 20 'Share-based payments'. This change is described in more detail below

### **Changes in accounting policies**

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standards

-FRS 20 'Share-based payment (IFRS 2)'

In accordance with FRS 20, the fair value of equity-settled share-based payments is determined at the date of grant and is recognised on a straight line basis over the vesting period based on the company's estimate of options that will vest. The adoption of FRS 20 has not resulted in a charge to the profit and loss account for the current year as all the share options had fully vested prior to 1 January 2006. Further details of the share options are disclosed within note 21 to the financial statements

### **Consolidation**

In the opinion of the directors, the company and its subsidiary undertakings comprise a small group. The company has therefore taken advantage of the exemption provided by Section 248 of the Companies Act 1985 not to prepare group accounts

### **Cash flow statement**

The directors have taken advantage of the exemption in Financial Reporting Standard No. 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is small

### **Turnover**

The turnover shown in the profit and loss account represents amounts invoiced during the year and adjusted for any deferred income as at the year-end

Revenue from licence sales is recognised when the work is completed and the system is accepted by the client. Revenue from training and technical work is recognised in the month in which the sale is made and the work is completed. Revenue from maintenance contracts is recognised over the life of the relevant maintenance contracts. Revenue collected or billed in advance of such services being provided is recorded as deferred income and recognised over the life of the maintenance contract.

### **Research and development**

Research and development expenditure is written off in the year in which it is incurred

### **Intangible fixed assets and amortisation**

Other intangible assets are included at cost and amortised on a straight-line basis over their useful economic lives as follows

Intangible assets - 20 years following the year of acquisition

### **Depreciation**

Depreciation is calculated so as to write off the cost of an asset over the useful economic life of that asset as follows

Plant and machinery - 15 - 30%

### **Stocks**

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

### **Work in progress**

Work in progress is valued on the basis of direct costs plus attributable overheads based on normal level of activity. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

### **Operating lease agreements**

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight-line basis over the period of the lease.

### **Pension costs**

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

### **Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

### **Investments**

Investments are included at cost.

### **Associates and subsidiary undertakings**

The company balance sheet shows the investment in the associates and subsidiary undertakings at cost less amounts written off.

## Profit and loss account

	Note	2006 £	2005 £
Turnover	1	7,515,074	5,552,218
Cost of sales		(550,047)	(550,440)
Gross profit		6,965,027	5,001,778
Other operating charges	2	(5,989,084)	(5,119,726)
<b>Operating profit/(loss)</b>	3	975,943	(117,948)
Interest receivable		17,771	10,643
Amounts written off investments	6	—	(25,000)
Interest payable and similar charges	7	(28,688)	—
<b>Profit/(loss) on ordinary activities before taxation</b>		965,026	(132,305)
Tax on profit/(loss) on ordinary activities	8	(477,646)	5,566
<b>Profit/(loss) for the financial year</b>	20	487,380	(126,739)

All of the activities of the company are classed as continuing

The company has no recognised gains or losses other than the results for the year as set out above

**The accompanying accounting policies and notes form part of these financial statements.**

## Balance sheet

	Note	2006 £	2005 £
<b>Fixed assets</b>			
Intangible assets	9	384,919	—
Tangible assets	10	249,656	190,298
Investments	11	—	384,919
		<u>634,575</u>	<u>575,217</u>
<b>Current assets</b>			
Stocks	12	339,907	342,134
Debtors	13	1,517,326	1,837,790
Cash at bank		1,451,054	119
		<u>3,308,287</u>	<u>2,180,043</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>2,165,350</u>	<u>1,460,173</u>
<b>Net current assets</b>		<u>1,142,937</u>	<u>719,870</u>
<b>Total assets less current liabilities</b>		<u>1,777,512</u>	<u>1,295,087</u>
<b>Provisions for liabilities and charges</b>			
Deferred taxation	16	7,662	12,617
		<u>1,769,850</u>	<u>1,282,470</u>
<b>Capital and reserves</b>			
Called-up equity share capital	19	24,735	24,735
Share premium account	20	10,813	10,813
Capital redemption reserve	20	61,515	61,515
Profit and loss account	20	1,672,787	1,185,407
<b>Shareholders' funds</b>	20	<u>1,769,850</u>	<u>1,282,470</u>

These financial statements were approved by the directors on 3 May 2007 and are signed on their behalf by



M L Richards  
Director

## Notes to the financial statements

### 1 Turnover and profit before taxation

The turnover and profit before tax are attributable to the one principal activity of the company  
An analysis of turnover is given below

	2006 £	2005 £
United Kingdom	<u>7,515,074</u>	<u>5,552,218</u>

### 2 Other operating income and charges

	2006 £	2005 £
Administrative expenses	<u>5,989,084</u>	<u>5,119,726</u>

### 3 Operating profit

Operating profit is stated after charging

	2006 £	2005 £
Depreciation of owned fixed assets	64,150	50,168
Fees payable to the Company's auditor for the audit of the Company's annual accounts	9,000	9,000
Tax compliance services	<u>2,625</u>	<u>3,950</u>

### 4 Directors and employees

The average number of persons employed by the company during the financial year, including the directors, amounted to 134 (2005 124)

The aggregate payroll costs of the above were

	2006 £	2005 £
Wages and salaries	3,953,386	3,088,715
Social security costs	433,278	314,177
Other pension costs	43,038	15,741
	<u>4,429,702</u>	<u>3,418,633</u>

**5 Directors**

Remuneration in respect of directors was as follows

	2006 £	2005 £
Emoluments receivable	221,065	202,488
Value of company pension contributions to money purchase schemes	12,000	12,000
	<u>233,065</u>	<u>214,488</u>

Emoluments of highest paid director

	2006 £	2005 £
Total emoluments (excluding pension contributions)	121,065	112,487
Value of company pension contributions to money purchase schemes	4,000	4,000
	<u>125,065</u>	<u>116,487</u>

The number of directors who accrued benefits under company pension schemes was as follows

	2006 No	2005 No
Money purchase schemes	<u>2</u>	<u>2</u>

**6 Amounts written off investments**

	2006 £	2005 £
Amount written off investments (note 11)	<u>—</u>	<u>25,000</u>

**7 Interest payable and similar charges**

	2006 £	2005 £
Other interest payable	<u>28,688</u>	<u>—</u>

**8 Taxation on ordinary activities**

(a) Analysis of charge in the year

	2006 £	2005 £
Current tax		
In respect of the year		
UK Corporation tax based on the results for the year at 30% (2005 19%)	297,215	—
Under provision in prior years	185,386	—
Total current tax	482,601	—
Deferred tax		
Origination and reversal of timing differences (note 16)	(4,955)	(5,566)
Tax on profit on ordinary activities	477,646	(5,566)

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 19%)

	2006 £	2005 £
Profit/(loss) on ordinary activities before taxation	965,026	(132,305)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the United Kingdom	289,508	(25,138)
Expenses not deductible for tax purposes	48,465	11,831
Capital allowances for period in excess of depreciation	(9,320)	(1,102)
Group relief	—	42,079
Other adjustments	1,457	223
Non taxable income	(10,494)	—
Tax relief for R&D expenditure	(22,401)	(27,893)
Adjustment in respect of prior years	185,386	—
Total current tax (note 8(a))	482,601	—

**9 Intangible fixed assets**

	<b>Purchased goodwill £</b>	<b>Software development £</b>	<b>Total £</b>
Cost			
At 1 January 2006	–	122,000	122,000
Additions	384,919	–	384,919
At 31 December 2006	<u>384,919</u>	<u>122,000</u>	<u>506,919</u>
Amortisation			
At 1 January 2006 and 31 December 2006	<u>–</u>	<u>122,000</u>	<u>122,000</u>
Net book value			
At 31 December 2006	<u>384,919</u>	<u>–</u>	<u>384,919</u>
At 31 December 2005	<u>–</u>	<u>–</u>	<u>–</u>

The purchased goodwill relates to the acquisition of customer lists giving the company the right to deliver payroll services to a particular group of customers

**10 Tangible fixed assets**

	<b>Plant &amp; Machinery £</b>
Cost	
At 1 January 2006	508,507
Additions	123,508
At 31 December 2006	<u>632,015</u>
Depreciation	
At 1 January 2006	318,209
Charge for the year	64,150
At 31 December 2006	<u>382,359</u>
Net book value	
At 31 December 2006	<u>249,656</u>
At 31 December 2005	<u>190,298</u>

## **11 Investments**

### **Investments in group undertakings**

	<b>£</b>
Cost	
At 1 January 2006	584,919
Transferred to purchased goodwill	<u>(384,919)</u>
At 31 December 2006	<u>200,000</u>
Amounts written off	
At 1 January 2006 and at 31 December 2006	<u>200,000</u>
Net book value	
At 31 December 2006	<u>—</u>
At 31 December 2005	<u>384,919</u>

The company owns 80% (2005 80%) of the issued share capital of Network Photographers Limited, a company incorporated in England and Wales

Network Photographers Limited made a loss for the 14 months ended 28 February 2006 of £135,453 (year ended 31 December 2005 £146,586 loss) and its aggregate capital and reserves showed a deficit of £324,775 (2005 £189,322 deficit)

On 23 February 2005, the company entered into a creditors voluntary arrangement. As a result of this, the carrying value of the investment was written down to £nil

In 2004, the company acquired 100% of the issued share capital of HRH Business Payrolls (UK) Limited, a company incorporated in England and Wales. On 1 January 2006, the trade and assets of HRH Business Payrolls (UK) Limited were transferred to Snowdrop Systems Limited. As a result, the carrying value of the investment has been written down to zero and the balance has been transferred to purchased goodwill.

## **12 Stocks**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Work in progress	<u>339,907</u>	<u>342,134</u>

**13 Debtors**

	2006 £	2005 £
Trade debtors	1,270,721	1,588,857
Amounts owed by related parties	122,374	134,275
Other debtors	43,604	68,000
Prepayments and accrued income	80,627	46,658
	<u>1,517,326</u>	<u>1,837,790</u>

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

	2006 £	2005 £
Bank overdraft	–	21,578
Trade creditors	272,513	289,425
Corporation tax	468,091	–
Other taxation and social security	461,746	359,667
Accruals and deferred income	963,000	783,586
Amounts owing to group undertakings	–	5,917
	<u>2,165,350</u>	<u>1,460,173</u>

**15 Pensions**

Defined contribution pension scheme

The company operates defined contribution pension schemes for the benefit of some employees and the directors. The assets of the scheme are administered by trustees in funds independent from those of the company. The pension cost charge for the year was £39,084 (2005 £15,741).

**16 Deferred taxation**

The movement in the deferred taxation provision during the year was

	2005 £	2005 £
Provision brought forward	12,617	18,183
Profit and loss account movement arising during the year (note 8)	(4,955)	(5,566)
Provision carried forward	<u>7,662</u>	<u>12,617</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	2006 £	2005 £
Excess of taxation allowances over depreciation on fixed assets	9,119	12,617
Other short term timing differences	(1,457)	–
	<u>7,662</u>	<u>12,617</u>

**17 Leasing commitments**

At 31 December 2006 the company had annual commitments under non-cancellable operating leases as set out below

	2006		2005	
	Land & Buildings	Other Items	Land & Buildings	Other Items
	£	£	£	£
Operating leases which expire				
Within 1 year	–	44,080	–	15,040
Within 2 to 5 years	17,998	37,200	–	61,380
After more than 5 years	110,000	–	110,000	–
	<u>127,998</u>	<u>81,280</u>	<u>110,000</u>	<u>76,420</u>

**18 Related party transactions**

Consultancy fees of £56,400 were paid in the year to Explore HR (2005 £56,400), a consultancy business of which M L Richards is the proprietor. At 31 December 2006 £4,700 (2005 £nil) remained outstanding.

Professional fees of £35,250 were paid in the year to Snowdrop HR Services Limited (2005 £105,750), a company under the control of M L Richards and T Tobin. At 31 December 2006 £26,437 (2005 £9,000) remained outstanding.

£66,926 was paid to Snowdrop Systems PTY Australia in the year (2005 £34,098), a company of which M L Richards owns 51% of the share capital, and of which he is a director. At 31 December 2006 £91,237 (2005 £34,097) remained outstanding.

The Company has granted £nil (2005 £151,801) additional funding to Network Photographers Limited during the course of the year. On 23 February 2006 Network Photographers Limited entered in to a creditors voluntary arrangement. At 31 December 2006, the remaining balance owed to the Company of £91,178 (2005 £273,533) was written off leaving a recoverable balance of £nil (2005 £91,178) outstanding.

**19 Share capital**

Authorised share capital

	2006	2005
	£	£
100,000 Ordinary shares of £1 each	100,000	100,000
60,000 Preference shares of £1 each	60,000	60,000
	<u>160,000</u>	<u>160,000</u>

Allotted, called up and fully paid

	2006		2005	
	No	£	No	£
Ordinary shares of £1 each	<u>24,735</u>	<u>24,735</u>	<u>24,735</u>	<u>24,735</u>

**20 Reconciliation of shareholders' funds and movement on reserves**

	Share capital £	Share premium account £	Capital redemption reserve £	Profit and loss account £	Total share- holders' funds £
At 1 January 2006	24,735	10,813	61,515	1,185,407	1,282,470
Profit for the year	—	—	—	487,380	487,380
At 31 December 2006	<u>24,735</u>	<u>10,813</u>	<u>61,515</u>	<u>1,672,787</u>	<u>1,769,850</u>

**21 Share options**

The company has in place an Enterprise Management Incentive Scheme. Under this scheme options on 2,175 ordinary shares were granted on 25 April 2001, of which 200 have lapsed, options on 2,195 ordinary shares were granted on 9 July 2001, of which 50 have lapsed, and options on 2,695 ordinary shares were granted on 16 October 2002, of which 410 have lapsed, at exercise prices of £9.65 per share. Under each scheme, the options are exercisable within ten years of being granted.

Mr T J Tobin, a director, has interests in share options of 1,750 ordinary shares granted on 9 July 2001 and 1,750 ordinary shares granted on 16 October 2002.

No share options were exercised during the year.

On 1 May 2007, 5,155 share options were exercised. Of these, 1,075 relate to options granted on 25 April 2001, 1,845 relate to options granted on 9 July 2001 and 2,235 relate to options granted on 16 October 2002. Included within these options exercised on 1 May 2007 are 3,500 share options held by Mr T J Tobin. As a result of the exercise of options on 1 May 2007, there are no further share options within the Company.

**22 Controlling related party**

Mr M L Richards is the company's controlling related party by virtue of his majority shareholding.