

Company Registration No. 2788181 (England And Wales)

Direct Solutions International Limited

Annual Report

For the year ended 31 July 2006

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Direct Solutions International Limited

Directors and advisers

Directors

M Felstead
A Young
S A Felstead
T J Drake
P Ring
D N Reynolds
A M Burrows
A C Rogers
T A Wickens

Secretary

A Young

Company number

2788181

Registered office

International House, Thamesview Business Centre,
Barlow Way
Rainham, Essex
RM13 8EW

Registered auditors

Kingston Smith LLP
Orbital House
20 Eastern Road
Romford
Essex, RM1 3PJ

Business address

International House, Thamesview Business Centre,
Barlow Way
Rainham, Essex
RM13 8EW

Direct Solutions International Limited

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Direct Solutions International Limited

Directors' Report For the year ended 31 July 2006

The directors present their report and financial statements for the year ended 31 July 2006

Business review and principal activities

Direct Solutions International Limited provides a diverse range of services in the processing of data, printing, mailing, distribution and the distribution of information via the internet. The results for the group show a pre-tax profit of £1.1 million (2005 £1.3 million) for the year and sales of £33.6 million (2005 £30.4 million). The group has net debt of £4.2 million (2005 £4.3 million). Net cash inflow from operating activities for 2006 was £1.8 million (2005 £2.2 million).

Business environment

In discussing the business environment it should be recognised that the structure of the industry reflects the diversity of its products and fragmented nature of its markets.

The printing, packaging and graphics communications industry is part of the UK's fourth largest manufacturing industry by turnover and second largest by value added. It remains extremely competitive and competition is fragmented and there continues to be a great deal of consolidation within the sectors that the dsi group operates.

In overall terms however the business environment in which dsi operates is buoyant but is undergoing significant change.

- Selection, speed and access to information becoming drivers
- Personalised content and communication is increasingly more expected
- Continued integration between print and electronic media
- Increase in print & communication on demand using the web to drive print
- Increasingly clients expect real-time communication
- Traditional areas of our business (e.g. litho printing) are increasingly becoming commodities traded at the lowest price.

Strategy

The group's overriding objective is to achieve attractive and sustainable rates of growth and returns through a combination of organic growth and acquisitions.

There are four key elements to the group's strategy for growth. They are:

- Strategic acquisitions and mergers
- To continue to pioneer and develop solutions in the emerging media channels, such as colour digital printing and "soft" delivery options
- Relocate the various operational centres of the company to a single site to improve efficiency and quality
- Investment in new equipment

Strategic Acquisition and Mergers

dsi has become too big to be considered a niche player, but has not necessarily got the scale to compete with the larger integrated business process output players in the UK and global markets. It is therefore the intention of dsi to develop the group in size and scale to compete more effectively.

Emerging Media

dsi has established itself as a world leader in the processing of data and the output of variable data printing and internet based delivery of information. Throughout the year dsi has refined its in-house software to develop faster processing, improved graphics handling and improved integration to new media channels such as the internet, DVD and SMS. A broader resource of developers and supporting staff have been trained to provide greater capacity to deliver evermore complex output solutions.

Direct Solutions International Limited

Directors' Report (continued) For the year ended 31 July 2006

New Premises

As dsi has grown it has leased a number of industrial units to house its growing operation. In the southeast it has over 20 buildings on three sites to the east of London and one to the west. To facilitate growth and maintain quality it is essential that dsi relocates its key operations to a single southern site.

Investment in New Equipment

To ensure that dsi continues to deliver the quality of service its clients require dsi will continue to invest in new technology to deliver their changing requirements.

Key Financial Performance Indicators

We consider that our key financial performance indicators are those that communicate the financial performance and strength of the company as a whole, these being turnover, gross profit margin and return on capital employed.

Group structure changes

Group structure changes impacting the consolidated results are summarised as follows:

Talislake Limited, formerly reported as a 47.5% subsidiary, was included within the group results as 100% owned for 2006. The newly formed dsi Nexdax was introduced to the group in 2006 and is included within Joint Ventures as 50% owned, conversely 100% owned dsi Anydoc Limited had ceased trading in the year. dsi Digital Limited ceased trading in July 2005, its activities being hived up to Direct Solutions International Limited. As dsi Digital Ltd had previously been consolidated as wholly owned, there was no impact on the consolidated results.

Group Turnover

The total gross group turnover, including associates' share of turnover and inter-group trading, amounted to £51.9 million and the total net group turnover, excluding associates' share of turnover and inter-company trading, amounted to £33.6 million, representing a 10% increase on last year.

This increase is mainly attributed to the full consolidation of Talislake Limited turnover within the dsi Group. £4.3 million had been included as the 47.5% dsi Group share in 2005. Grossed group turnover (i.e. consolidated turnover inclusive of minority share & excluding intercompany trading) at £46.2m was 5.6% down on the previous year.

Group Gross Profit

Group Gross Profit margin at 27.1% had increased 0.6% on the previous year. This resulted from the restructuring, however, a further contributory element was new contracts won in areas of innovation by dsi towards the latter end of the financial year.

Group Joint Venture & Associates Contributions

Group Joint Venture & Associates Contributions at £339,000 had increased 38% on the previous year. The combined growth in turnover for the related businesses was 6% up on the previous year.

Return on Capital Employed

Group Return on Capital Employed for the year at 22.74% compared to 26.92% for the previous year.

Direct Solutions International Limited

Directors' Report (continued) For the year ended 31 July 2006

Staff

During the year staffing levels for all group companies reduced slightly from 511 to 505 (1.7%) and the staff turnover reduced by 4%. dsi is actively seeking to further reduce staff turnover by 5% and increase retention by 3% in 2007.

Environment

dsi take environmental issues very seriously all waste products are separated out and are disposed of using specialist, accredited waste disposal companies. We have our ISO 14001 and are currently working towards FSA (Forest Stewardship Council) and PEFC Programme for the Endorsement of Forest Certification) accreditation. We are also establishing our carbon footprint to enable dsi to become carbon neutral.

Future Outlook

The external market remains competitive in 2007 as further consolidation and commoditisation of our services continue. However through our continued development of new services and added value opportunities we remain confident that we will maintain our current level of performance in the future.

Risks and Uncertainties

The key business risks and uncertainties affecting the company are considered to relate to the logistics of relocating several business units and associated assets to a new location while maintaining quality of service, and any potential, as yet unseen, external regulatory changes in dsi's key markets (e.g. Financial Services).

Results and dividends

The consolidated profit and loss account for the year is set out on page 6.

The directors do not recommend the payment of a final dividend.

Directors' interests

The directors who served the company during the year together with their interests in the shares of the company and other group companies at the beginning and end of the year, were as follows:

	Ordinary shares of £1 each	
	31 July 2006	1 August 2005
M Felstead	7,500	7,500
A Young	7,500	7,500
S A Felstead	7,500	7,500
T J Drake	1,580	1,580
P Ring - appointed 1 February 2005	-	-
D N Reynolds - appointed 1 August 2005	3,284	-
A M Burrows - appointed 16 September 2005	2,542	-
A C Rodgers - appointed 16 September 2005	-	-
T A Wickens - appointed 16 September 2005	-	-

None of the directors have options to acquire shares in the company or any beneficial interests in any other group company.

Direct Solutions International Limited

Directors' Report (continued) For the year ended 31 July 2006

Employee involvement

The group's policy is to consult and discuss with employees, through staff councils and at meetings, matters likely to affect employees' interests

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the group's performance

Disabled persons

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Auditors

Kingston Smith LLP have indicated their willingness to continue in office and in accordance with the provisions of the Companies Act it is proposed that they be re-appointed auditors to the company for the ensuing year.

Directors' responsibilities

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and of the profit or loss of the group 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, 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 a going concern basis unless it is inappropriate to assume 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 company and 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 company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

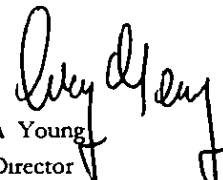
Statement of disclosure to auditor

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

International House, Thamesview Business Centre,
Barlow Way
Rainham, Essex
RM13 8EW

Date 11/4/2007

On behalf of the board


A Young
Director

Direct Solutions International Limited

Independent Auditors' Report To the shareholders of Direct Solutions International Limited

We have audited the group and parent company financial statements of Direct Solutions International Limited for the year ended 31 July 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement 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 for no purpose other than to draw to the attention of the company's members those matters which we are required to include in an auditors' report addressed to them. To the fullest extent permitted by law, we do not accept or assume responsibility to any party other than the company and 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 Annual Report and the financial statements in accordance with applicable law and United Kingdom 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 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 transactions with the company is not disclosed.

We read other information included in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's and the group's affairs as at 31 July 2006 and of the group's profit for the year then ended and 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.

Kingston Smith LLP

Kingston Smith LLP
Chartered Accountants
Registered Auditors

Date 11 April 2007
Orbital House
20 Eastern Road
Romford
Essex, RM1 3PJ

Direct Solutions International Limited

Consolidated Profit And Loss Account For the year ended 31 July 2006

	Notes	2006 £	2005 £
Turnover group and share of joint ventures		42,183,622	37,906,201
Less share of joint ventures		(8,609,661)	(7,516,408)
Group turnover	2	33,573,961	30,389,793
Cost of sales		(23,328,100)	(20,311,533)
Gross profit		10,245,861	10,078,260
Operating costs before depreciation and amortisation		(8,300,048)	(8,204,365)
Other operating income		402,728	190,259
Earnings before interest, tax depreciation and amortisation		2,348,541	2,064,154
Depreciation		(949,899)	(802,289)
Amortisation		(149,617)	(111,100)
Group Operating profit	4	1,249,025	1,150,765
Share of operating profit/(loss) in			
Joint ventures		321,653	267,783
Associates		(25,164)	(21,231)
Profit on ordinary activities before interest		1,545,514	1,397,317
Interest receivable	5	4,415	259,937
Interest payable and similar charges	6	(451,753)	(327,029)
Profit on ordinary activities before taxation		1,098,176	1,330,225
Tax on profit on ordinary activities	7	(458,541)	(473,540)
Profit on ordinary activities after taxation		639,635	856,685
Minority interests		(8,029)	3,199
Profit for the financial year	8	631,606	859,884

The profit and loss account has been prepared on the basis that all operations are continuing operations (see note 3)


There are no recognised gains and losses other than those passing through the profit and loss account


Direct Solutions International Limited

Balance Sheets As at 31 July 2006

	Notes	Group 2006 £	2005 £	Company 2006 £	2005 £
Fixed assets					
Intangible assets	10	2,148,848	1,226,525	2,169,730	1,707,154
Tangible assets	11	3,906,089	3,325,080	3,704,413	3,066,446
Investments	12	1,612,067	741,918	1,394,027	376,183
		<u>7,667,004</u>	<u>5,293,523</u>	<u>7,268,170</u>	<u>5,149,783</u>
Current assets					
Stocks	13	403,833	230,823	403,833	165,766
Debtors	14	6,707,440	6,284,369	6,617,104	5,796,787
Cash at bank and in hand		332,465	108,240	247,733	107,872
		<u>7,443,738</u>	<u>6,623,432</u>	<u>7,268,670</u>	<u>6,070,425</u>
Creditors amounts falling due within one year	15	(10,635,353)	(8,931,225)	(10,300,109)	(7,998,202)
		<u>(3,191,615)</u>	<u>(2,307,793)</u>	<u>(3,031,439)</u>	<u>(1,927,777)</u>
Net current liabilities					
		<u>(3,191,615)</u>	<u>(2,307,793)</u>	<u>(3,031,439)</u>	<u>(1,927,777)</u>
Total assets less current liabilities		<u>4,475,389</u>	<u>2,985,730</u>	<u>4,236,731</u>	<u>3,222,006</u>
Creditors amounts falling due after more than one year	16	(724,751)	(708,408)	(565,689)	(657,285)
Provisions for liabilities	17	(963,708)	(828,908)	(948,293)	(811,439)
Deferred income	18	(482,566)	(663,529)	(482,566)	(663,529)
		<u>2,304,364</u>	<u>784,885</u>	<u>2,240,183</u>	<u>1,089,753</u>
Capital and reserves					
Called up share capital	20	29,906	24,080	29,906	24,080
Other reserves	21	838,674	7,500	838,674	7,500
Profit and loss account	21	1,427,730	796,124	1,371,603	1,058,173
		<u>2,296,310</u>	<u>827,704</u>	<u>2,240,183</u>	<u>1,089,753</u>
Shareholders' funds - Equity Interest	23				
Minority interests	22	8,054	(42,819)	-	-
		<u>2,304,364</u>	<u>784,885</u>	<u>2,240,183</u>	<u>1,089,753</u>

Approved by the Board and authorised for issue on 11/4/2007


A Young
Director


M. Felsstead
Director

Direct Solutions International Limited

Consolidated Cash Flow Statement For the year ended 31 July 2006

	Notes	£	2006 £	£	2005 £
Net cash inflow from operating activities	1		1,831,968		2,265,024
Interest received		4,415		259,937	
Interest paid		(231,882)		(197,101)	
Interest element of finance lease rentals		(212,021)		(101,285)	
Dividends received		-		347,245	
Net cash outflow for returns on investments and servicing of finance			(439,488)		308,796
Taxation			(257,113)		(439,097)
Payments to acquire tangible assets		(257,111)		(194,992)	
Receipts from sales of tangible assets		138,976		4,865	
Net cash outflow for capital expenditure			(118,135)		(190,127)
Purchase of subsidiary undertakings (net of cash acquired)		(55,000)		(500)	
Net overdrafts acquired with subsidiary		(116,183)		(1,197)	
Net cash acquired with subsidiaries		45,664			
Net cash outflow for acquisitions and disposals			(125,519)		(1,697)
Equity dividends paid			-		(615,263)
Net cash outflow before management of liquid resources and financing			891,713		1,327,636
Purchase of own shares		-		(1,500,000)	
Capital element of finance lease contracts		(573,779)		(417,269)	
Net cash outflow from financing			(573,779)		(1,917,269)
Increase/(decrease) in cash in the year	2 & 3		317,934		(589,633)

The notes referred to are set out on pages 10

Direct Solutions International Limited

Notes To The Consolidated Cash Flow Statement For the year ended 31 July 2006

1	Reconciliation of operating profit to net cash inflow from operating activities	2006	2005
		£	£
	Operating profit	1,249,025	1,150,765
	Depreciation of tangible assets	949,899	802,289
	Amortisation of intangible assets	149,617	111,100
	Loss on disposal of tangible assets	31,901	6,903
	Goodwill written off	45,528	-
	Decrease in stocks	45,304	140,657
	Decrease in debtors	2,660,049	768,136
	(Decrease) in creditors within one year	(3,299,355)	(714,826)
	Net cash inflow from operating activities	1,831,968	2,265,024

2	Analysis of net debt	1 August 2005	Cash flow	Other non-cash changes	31 July 2006
		£	£	£	£
	Net cash				
	Cash at bank and in hand	108,240	224,225	-	332,465
	Bank overdrafts	(3,346,773)	93,709	-	(3,253,064)
			317,934		
	Finance leases	(1,059,430)	630,886	(811,100)	(1,239,644)
	Net debt	(4,297,963)	948,820	(811,100)	(4,160,243)

3	Reconciliation of net cash flow to movement in net debt	2006	2005
		£	£
	Increase/(decrease) in cash in the year	317,934	(589,633)
	Cash inflow from increase in debt and lease financing	630,886	417,269
	New finance lease	(811,100)	(452,085)
	Movement in net debt in the year	137,720	(624,449)
	Opening net debt	(4,297,963)	(3,673,514)
	Closing net debt	(4,160,243)	(4,297,963)

4a Major non-cash transactions

During the year the company entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £811,100

Direct Solutions International Limited

Notes To The Consolidated Cash Flow Statement (continued) For the year ended 31 July 2006

4b Purchase of subsidiary undertakings

	dsi Print Services	dsi Nexdox	Total
	£	£	£
Net assets acquired			
Tangible fixed assets	1,079,961	13,722	1,093,683
Intangible fixed assets	652,981	-	652,981
Investments	1,322,219	-	1,322,219
Stocks	218,314	-	218,314
Debtors	1,965,795	471,446	2,437,241
Cash at bank	825	45,664	46,489
Bank loans and overdrafts	(117,008)	-	(117,008)
Finance leases	(404,477)	-	(404,477)
Creditors	(2,946,203)	(377,465)	(3,323,668)
Creditors due after more than one year	(533,856)	-	(533,856)
Provisions for liabilities and charges	(209,062)	(1,436)	(210,498)
Total assets acquired	1,029,489	151,931	1,181,420
Pre-acquisition dividend	-	32,500	32,500
Profits accrued as a joint venture	(137,238)	(108,466)	(245,704)
Goodwill	118,958	301,585	420,543
Total consideration given	1,011,209	377,550	1,388,759
Satisfied by			
Issue of shares	460,875	375,000	835,875
Cash paid	55,000	-	55,000
Cash payable	120,036	-	120,036
Consideration paid in prior years	372,113	-	372,113
Costs of acquisition	3,185	2,550	5,735
	1,011,209	377,550	1,388,759

Direct Solutions International Limited

Notes To The Group Financial Statements For the year ended 31 July 2006

1 Accounting policies

11 Accounting convention

The financial statements have been prepared under the historical cost convention and in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently

12 Basis of consolidation

The group financial statements consolidate the financial statements of the company and its subsidiary undertakings made up to 31 July 2006 and its share of the results and post-acquisition reserves of associated undertakings and joint ventures

The profits and losses of subsidiary undertakings, associated undertakings and joint ventures are consolidated from the date of acquisition to the date of disposal. When the company's shares are issued in respect of an acquisition, the share premium is computed on the basis of the market value of the shares at the date of acquisition. The difference between the cost of acquisition of shares in subsidiaries and the fair value of the separable net assets acquired is amortised through the profit and loss account in equal instalments over its estimated useful life.

13 Associated undertakings

The group's share of profits less losses of associated undertakings and joint ventures is included in the consolidated profit and loss account, and the group's share of their net assets is included in the consolidated balance sheet.

14 Turnover

Turnover represents the value of goods and services provided net of value added tax.

15 Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the separable net assets of businesses acquired and is amortised through the profit and loss account in equal instalments over its estimated useful life. Negative goodwill is written off in the year of acquisition.

16 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Land and buildings Leasehold	Over the life of the lease
Plant and machinery	10% straight line
Computer equipment	20% straight line
Fixtures, fittings & equipment	10% straight line
Motor vehicles	20% straight line

17 Leasing and hire purchase commitments

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets. Assets obtained under finance leases are depreciated over the shorter of the lease term and their useful lives, whereas assets obtained under hire purchase contracts are depreciated over their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals paid under operating leases are charged against income on a straight line basis over the lease term.

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

1 Accounting policies (continued)

1 8 Investments

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

1 9 Stock and work in progress

Stock and work in progress are stated at the lower of cost and net realisable value

1 10 Pensions

Contributions payable to the personal pension schemes of employees are charged to the profit and loss account in the period in which they are paid

1 11 Deferred taxation

In accordance with FRS 19, deferred tax is recognised as a liability or asset if transactions or events that give the company the obligation to pay more tax in future or a right to pay less tax in future have occurred by the balance sheet date

1 12 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction All exchange differences are taken to profit and loss account

1 13 Government grants

Grants are credited to deferred revenue Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred

1.14 Reverse Lease Premium

Amounts received as an incentive to enter into operating leases, are capitalised and amortised through the profit and loss account on a straight line basis over the shorter of the period up to the date of the first rent review or the expiry of the lease itself resulting in a market rent

2 Turnover

The total turnover of the group for the year has been derived from its principal activity

Geographical analysis

The analysis by geographical area of the group's turnover is set out as below

	2006	2005
	£	£
Geographical analysis		
United Kingdom	31,661,534	27,678,913
United States	1,115,092	1,015,884
Rest of the World	797,335	1,694,996
	<hr/> 33,573,961	<hr/> 30,389,793

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

3 Group turnover and net operating expenses

On 1 August 2005 the group acquired the remainder of the share capital of ds1 Print Services and its subsidiary Talislake Limited and transferred the net assets and trade to Direct Solutions International Limited on the same date. As the trade of Talislake Limited has been completely subsumed within that of Direct Solutions International Limited, the results of the Talislake trade transferred to Direct Solutions International Limited cannot be practically determined and therefore, in accordance with FRS3, the results relating to the acquisition of Talislake are not separately disclosed.

The results for the prior year included the following relating to acquisitions: turnover £1,824,705 (£34,970 net of group sales of £1,789,735), cost of sales of £312,379 and administrative expenses of £1,447,684. The consolidated profit and loss account therefore showed £64,642 in respect of the contribution of acquired activities to Group operating profit.

4	Operating profit	2006 £	2005 £
	Operating profit is stated after charging:		
	Amortisation of intangible assets	149,617	111,100
	Depreciation of tangible assets		
	-Owned assets	650,796	449,950
	-Leased assets	299,103	352,339
	Loss on disposal of tangible assets	30,426	6,903
	Loss on foreign exchange transactions	2,178	-
	Operating lease rentals		
	- Plant and machinery	810,125	1,234,147
	- Other assets	777,241	877,650
	Auditors' remuneration (company £60,000, 2005 £48,605)	77,305	63,430
	Remuneration of auditors for non-audit work	49,840	27,910
	Exceptional costs		
	Dilapidation provision (Note 17)	-	485,000

5	Interest receivable	2006 £	2005 £
	Interest - group	4,415	259,937
	Interest - company	4,281	259,937

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

6	Interest payable	2006 £	2005 £
	On bank loans and overdrafts	238,941	202,510
	Hire purchase interest	212,021	124,519
	On overdue tax	791	-
		<u>451,753</u>	<u>327,029</u>
	Group	386,796	303,795
	Joint Ventures	7,850	23,234
		<u>394,646</u>	<u>327,029</u>

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

7	Taxation	2006 £	2005 £
	Domestic current year tax		
	U K corporation tax	441,447	464,698
	Share of taxation of joint ventures	92,791	63,154
	Current tax charge	534,238	527,852
	Deferred tax		
	Deferred tax credit current year	(75,697)	(54,312)
		458,541	473,540
	Factors affecting the tax charge for the year		
	Profit on ordinary activities before taxation	1,098,176	1,330,225
	Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 30% (2005 - 30%)	329,453	399,068
	Effects of		
	Non deductible expenses	100,830	64,115
	Depreciation add back	375,157	310,831
	Capital allowances	(228,346)	(206,409)
	Adjustments to previous periods	-	(16,732)
	Effect of tax differences in the group	(42,856)	(23,021)
		204,785	128,784
	Current tax charge	534,238	527,852

8 Profit for the financial year

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year is made up as follows

	2006 £	2005 £
Holding company's profit for the financial year	313,430	1,074,412

9 Dividends

	2006 £	2005 £
Ordinary interim paid	-	615,263

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

10 Intangible fixed assets Group

	Goodwill £
Cost	
At 1 August 2005	2,191,840
Additions	1,071,940
	<hr/>
At 31 July 2006	3,263,780
	<hr/>
Amortisation	
At 1 August 2005	965,315
Charge for the year	149,617
	<hr/>
At 31 July 2006	1,114,932
	<hr/>
Net book value	
At 31 July 2006	2,148,848
	<hr/>
At 31 July 2005	1,226,525
	<hr/>

Company

	Goodwill £
Cost	
At 1 August 2005	2,297,676
Addition	607,453
	<hr/>
At 31 July 2006	2,905,129
	<hr/>
Amortisation	
At 1 August 2005	590,522
Charge for the year	144,877
	<hr/>
At 31 July 2006	735,399
	<hr/>
Net book value	
At 31 July 2006	2,169,730
	<hr/>
At 31 July 2005	1,707,154
	<hr/>

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

11 Tangible fixed assets Group

	Land and buildings Leasehold	Plant and machinery	Fixtures, fittings & equipment	Motor vehicles	Total
	£	£	£	£	£
Cost					
At 1 August 2005	343,361	4,577,006	1,554,382	658,934	7,133,683
Acquired on acquisition of subsidiary	-	925,184	135,259	33,290	1,093,733
Additions	-	91,251	248,159	267,167	606,577
Disposals	-	(71,736)	-	(208,817)	(280,553)
At 31 July 2006	343,361	5,521,705	1,937,800	750,574	8,553,440
Depreciation					
At 1 August 2005	98,789	2,493,193	977,120	239,501	3,808,603
On disposals	-	(35,911)	-	(75,240)	(111,151)
Charge for the year	15,798	532,039	236,540	165,522	949,899
At 31 July 2006	114,587	2,989,321	1,213,660	329,783	4,647,351
Net book value					
At 31 July 2006	228,774	2,532,384	724,140	420,791	3,906,089
At 31 July 2005	244,572	2,083,813	577,262	419,433	3,325,080

The net book value of tangible fixed assets includes an amount of £1,840,448 (2005 - £1,976,340) in respect of assets held under finance leases or hire purchase contracts

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

11	Tangible assets					(continued)
Company		Leasehold land and buildings £	Plant and machinery £	Fixtures, fittings & equipment £	Motor vehicles £	Total £
Cost						
At 1 August 2005		343,361	4,424,077	1,354,569	575,291	6,697,298
Assets transferred from subsidiary		-	968,602	121,487	33,290	1,123,379
Additions		-	90,456	228,026	232,172	550,654
Disposals		-	(59,700)	-	(189,817)	(249,517)
At 31 July 2006		343,361	5,423,435	1,704,082	650,936	8,121,814
Depreciation						
At 1 August 2005		98,789	2,428,122	886,136	217,805	3,630,852
On disposals		-	(29,850)	-	(58,715)	(88,565)
Charge for the year		15,798	520,783	194,542	143,991	875,114
At 31 July 2006		114,587	2,919,055	1,080,678	303,081	4,417,401
Net book value						
At 31 July 2006		228,774	2,504,380	623,404	347,855	3,704,413
At 31 July 2005		244,572	1,995,955	468,433	357,486	3,066,446

The net book value of tangible fixed assets includes an amount of £1,759,529 (2005 £1,863,277) in respect of assets held under finance leases or hire purchase contracts

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

12 Fixed asset investments

Group

		Shares in participating interests £
Cost		
At 1 August 2005		741,918
Group share of profits	195,845	
Acquisition of further interest in associate	2,308,768	
		<u>2,504,613</u>
Joint venture now a subsidiary		(1,634,464)
		<u>1,612,067</u>
At 31 July 2006		
		Unlisted investments £
Cost		
At 1 August 2005 and 31 July 2006		<u>100,000</u>
Provisions for diminution in value		
At 1 August 2005 and 31 July 2006		<u>(100,000)</u>
Net book value		
At 31 July 2006		<u>-</u>
At 31 July 2005		<u>-</u>

The unlisted investment was acquired by the group through the acquisition of ds1 Anydoc Limited and represents a 1.8% holding in the ordinary share capital of Route 4 plc. The company is incorporated in the England & Wales and was listed on the OFEX market until 2 April 2004. The directors consider that the investment is worthless as they do not expect to receive any dividends and have not been able to find a buyer for the shares. The investment has therefore been fully written off.

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

12 Fixed asset investments

(continued)

Interests in associated undertakings and joint ventures

£

Cost

At 1 August 2005	372,663
Acquisition of further interest in associate	2,308,768
Joint venture now a subsidiary	(1,388,760)
	<hr/>
Cost at 31 July 2006	1,292,671

Groups shares of post-acquisition reserves

At 1 August 2005	369,255	
Share of retained profits for the year	195,845	
Joint venture now a subsidiary	(245,704)	
	<hr/>	
		319,396
		<hr/>
		1,612,067
		<hr/>

Investment in joint ventures

Share of assets		
Fixed assets - tangible		183,975
Investments		1,330,270
Current assets		650,768
		<hr/>
		2,165,013
Share of liabilities		
Due within one year or less	613,344	
Due after more than one year	9,060	
	<hr/>	
		(622,404)
Share of associates		69,458
		<hr/>
Share of net assets		1,612,067
		<hr/>

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

12 Fixed asset investments

(continued)

Company	Shares in participating interests £	Shares in subsidiary undertakings £	Total £
Cost and net book value			
At 1 August 2005	372,614	3,569	376,183
Additions	1,016,646	1,198	1,017,844
Participating interests now subsidiaries	(1,388,760)	1,388,760	-
At 31 July 2006	500	1,393,527	1,394,027

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet

Holdings of more than 20%

The company holds directly or indirectly more than 20% of the ordinary share capital of the following companies, all of which are incorporated in England and Wales

Company	Principal activity	Shares held %
Subsidiary undertakings		
dsi Sameday Express Limited	Counter services specialising in urgent deliveries	75
The Fulfilment Group Limited	Dormant	100
dsi Print Services Limited	Dormant holding company	100
Talislake Limited	Dormant	100
dsi Digital Limited	Dormant	100
Driscoll Direct Mail (Holdings) Limited	Dormant	100
Driscoll Direct Mail Limited	Dormant	100
dsi Nexdox Limited	Programming and systems developing services	100
dsi Anydoc Limited	Programming and systems development services	100
Donnybrook Finishers Limited	Dormant and being struck off	100

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

12 Fixed asset investments

(continued)

Company	Principal activity	Shares held
Significant interests		%
dsi Billing Services Limited	Billing and service providers	50
dsi International Distribution (Holdings) Limited	Dormant holding company of dsi International Distribution Limited	50
dsi International Distribution Limited	International freight courier	50
Held by dsi Print Services Limited		
SNRG Limited	Print services management	50
Colourworks Docklands Limited	Printing services	50
Participating Interests		
European Direct Mail Specialists Limited	Mailing and delivery services	50
The Database Centre Limited	Database management	33
Response Handling Centre Limited	Administration support for fund raising companies	34

The results of European Direct Mail Specialists Limited have been based on the audited accounts for the year ended 31 December 2005 and the unaudited management accounts for the period ended 31 July 2006. The accounts for the other participating interests are based on the unaudited accounts for the year ended 31 December 2005 and the unaudited management accounts for the period ended 31 July 2006.

Previously the company agreed to waive its rights to dividends declared by The Database Centre Limited. As a result the company has no economic benefit from this shareholding, and as such the value of the shareholding is £333 being the par value of the shares.

On 1 August 2005 dsi Print Services Limited became a wholly owned subsidiary following the acquisition of 52.5% of the share capital. The shares were acquired by way of a share exchange and cash. Total consideration for the entire acquisition was valued at £1,011,209 using fair value accounting generating goodwill of £118,958. On the same day, the assets and trade of Talislake Limited, the subsidiary of dsi Print Services Limited, were transferred to Direct Solutions International Limited. As a result of this transaction the group's holding in Colourworks Docklands Limited and SNRG Limited increased to 50%.

On 1 August 2005 dsi Digital Limited became a wholly owned subsidiary following the acquisition of 25% of the share capital. The shares were acquired by way of a share exchange. Total consideration was valued at £1,125 using fair value accounting generating goodwill of £43,944. On the same day the trade and net assets of dsi Digital Limited were transferred to Direct Solutions International Limited.

On 18 October 2005 dsi Sameday Limited issued further shares which reduced the holding of Direct Solutions International Limited to 75%.

On 31 July 2006 dsi Nexdax Limited became a wholly owned subsidiary following the acquisition of 50% of the share capital. The shares were acquired by way of a share exchange. Total consideration was valued at £377,550 using fair value accounting generating goodwill of £301,585.

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

13 Stocks and work in progress

	Group 2006 £	2005 £	Company 2006 £	2005 £
Work in progress	175,044	125,661	175,044	93,945
Finished goods and goods for resale	228,789	105,162	228,789	71,821
	<u>403,833</u>	<u>230,823</u>	<u>403,833</u>	<u>165,766</u>

14 Debtors

	Group 2006 £	2005 £	Company 2006 £	2005 £
Trade debtors	5,504,164	5,405,308	5,422,407	4,962,719
Amounts owed by group undertakings	-	-	106,491	131,106
Amounts owed by participating interests	476,489	387,084	439,025	297,150
Other debtors	123,180	83,461	110,211	34,922
Prepayments and accrued income	603,607	408,516	538,970	370,890
	<u>6,707,440</u>	<u>6,284,369</u>	<u>6,617,104</u>	<u>5,796,787</u>

Group trade debts amounting to £3,852,852 (2005 - £3,639,331) have been sold under a debt purchase agreements with Lloyds TSB

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

15 Creditors amounts falling due within one year

	Group 2006 £	2005 £	Company 2006 £	2005 £
Bank loans and overdrafts	3,253,064	3,346,773	3,157,670	3,196,270
Net obligations under finance lease and hire purchase contracts (note 25)	629,068	351,022	599,017	320,151
Trade creditors	2,504,022	1,458,144	2,454,079	1,225,277
Amounts owed to group undertakings	-	-	545,586	258,821
Amounts owed to participating interests	30,831	378,929	30,831	335,728
Corporation tax	591,735	221,341	470,833	198,099
Other taxes and social security costs	1,082,639	1,255,624	916,411	1,026,438
Other creditors	442,908	298,659	147,416	295,931
Accruals and deferred income	2,101,086	1,620,733	1,978,266	1,141,487
	<u>10,635,353</u>	<u>8,931,225</u>	<u>10,300,109</u>	<u>7,998,202</u>

The group and company bank overdraft represents the Lloyds TSB account drawn down against trade debtors as disclosed in note 16 and is secured by a mortgage debenture dated 3 February 2000, incorporating a fixed and floating charge over all current and future assets of the group, together with life insurance policies secured on the lives of M Felstead and A Young in favour of the company

16 Creditors . amounts falling due after more than one year

	Group 2006 £	2005 £	Company 2006 £	2005 £
Other loans	114,175	-	-	-
Net obligations under finance leases and hire purchase agreements (note 25)	610,576	708,408	565,689	657,285
	<u>724,751</u>	<u>708,408</u>	<u>565,689</u>	<u>657,285</u>

Other loans represent the deferred consideration in respect of the acquisition of the share capital of Colourworks Docklands Limited. Balances due within one year of £273,996 under this agreement are included within other creditors in note 15

Direct Solutions International Limited

Notes To The Group Financial Statements (continued)

For the year ended 31 July 2006

17 Provisions for liabilities and charges

Group

	Deferred tax liability	Dilapidations	Total
	£	£	£
Balance at 1 August 2005	343,908	485,000	828,908
Profit and loss account	(75,697)	-	(75,697)
Acquisition of subsidiary	210,497	-	210,497
	<hr/>	<hr/>	<hr/>
Balance at 31 July 2006	478,708	485,000	963,708
	<hr/>	<hr/>	<hr/>

Company

Balance at 1 August 2005	326,439	485,000	811,439
Profit and loss account	136,854	-	136,854
	<hr/>	<hr/>	<hr/>
Balance at 31 July 2006	463,293	485,000	948,293
	<hr/>	<hr/>	<hr/>

The provision for dilapidations of £485,000 is in respect of leasehold premises occupied by the company. The leases include terms that the company make good dilapidations and damage incurred in the course of the lease period.

18 Deferred income

Group and company

Reverse lease premium

	£
Balance at 1 August 2005	663,529
Amortisation in the year	(180,963)
	<hr/>
Balance at 31 July 2006	482,566
	<hr/>

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

19 Pension costs

Defined contribution

	2006 £	2005 £
Contributions payable by the group for the year	111,216	59,190

20 Share capital

	2006 £	2005 £
Authorised		
40,000 Ordinary shares of £1 each	40,000	40,000
60,000 Non-voting ordinary shares of £1 each	60,000	60,000
	100,000	100,000
Allotted, called up and fully paid		
29,906 Ordinary shares of £1 each	29,906	24,080

The company has granted options for 2,499 non-voting ordinary shares to each of three key employees subject to a maximum holding of 1% of the issued share capital at the time the options are exercised. The option price is £40 per share and the option period lapses on 11 June 2012.

During the year the company issued 5,826 shares as part of share swap arrangements to acquire shares in ds1 Print Services Limited, ds1 Nexdoo Limited and ds1 Digital Limited.

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

21 Statement of movements on reserves

Group

	Other reserves (see below)	Profit and loss account
	£	£
Balance at 1 August 2005	7,500	796,124
Profit for the year	-	631,606
Arising on mergers in the year	831,174	-
Balance at 31 July 2006	838,674	1,427,730

Other reserves

Capital redemption reserve

Balance at 1 August 2005 & at 31 July 2006

7,500

Merger reserve

Arising on mergers in the year

831,174

Balance at 31 July 2006

838,674

Company

	Other reserves (see below)	Profit and loss account
	£	£
Balance at 1 August 2005	7,500	1,058,173
Profit for the year	-	313,430
Arising on mergers in the year	831,174	-
Balance at 31 July 2006	838,674	1,371,603

Other reserves

Capital redemption reserve

Balance at 1 August 2005 & at 31 July 2006

7,500

Merger reserve

Arising on mergers in the year

831,174

Balance at 31 July 2006

838,674

22 Minority Interests

	2006	2005
	£	£
Minority interests' share of net assets and liabilities in subsidiary undertakings	8,054	(42,819)

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

23	Reconciliation of movements in shareholders' funds	2006	2005
	Group	£	£
	Result for the financial year	631,606	859,884
	Dividends	-	(615,263)
	Purchase of own shares	-	(1,500,000)
		<hr/>	<hr/>
		631,606	(1,255,379)
	Fair value of shares issued in consideration of acquisition	837,000	-
		<hr/>	<hr/>
	Net addition/(reduction) to shareholders' funds	1,468,606	(1,255,379)
	Opening shareholders' funds	827,704	2,083,083
		<hr/>	<hr/>
	Closing shareholders' funds	2,296,310	827,704
		<hr/>	<hr/>
		2006	2005
	Company	£	£
	Result for the financial year	313,430	1,074,412
	Dividends	-	(615,263)
	Purchase of own shares	-	(1,500,000)
		<hr/>	<hr/>
		313,430	(1,040,851)
	Fair value of shares issued in consideration of acquisition	837,000	-
		<hr/>	<hr/>
	Net (reduction)/addition to shareholders' funds	1,150,430	(1,040,851)
	Opening shareholders' funds	1,089,753	2,130,604
		<hr/>	<hr/>
	Closing shareholders' funds	2,240,183	1,089,753
		<hr/>	<hr/>

24 Contingent liabilities

Group

The group and company have provided a guarantee to Lloyds TSB Bank PLC as part of group finance facilities

The company has provided a guarantee in respect of leases entered into by ds1 International Distribution Limited

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

25 Financial commitments

a) Operating leases

At 31 July 2006 the group had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Expiry date				
Within one year	416,900	-	71,070	15,937
Between two and five years	-	394,300	1,145,210	1,125,078
In over five years	497,450	553,300	-	-
	<u>914,350</u>	<u>947,600</u>	<u>1,216,280</u>	<u>1,141,015</u>

At 31 July 2006 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings		Other	
	2006	2005	2006	2005
	£	£	£	£
Expiry date				
Within one year	416,900	-	59,538	4,405
Between two and five years	-	394,300	800,778	780,646
In over five years	497,450	553,300	-	-
	<u>914,350</u>	<u>947,600</u>	<u>860,316</u>	<u>785,051</u>

b) Finance leases

	Group		Company	
	2006	2005	2006	2005
	£	£	£	£
Finance lease and hire purchase contracts are analysed as follows				
due within one year (Note 15)	629,068	351,022	599,017	320,151
due after more than one year (Note 16)	610,576	708,408	565,689	657,285
	<u>1,239,644</u>	<u>1,059,430</u>	<u>1,107,599</u>	<u>977,436</u>

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

26 Directors' emoluments	2006	2005
	£	£
Emoluments for qualifying services	1,668,582	440,201
Company pension contributions to money purchase schemes	29,280	20,760
	<u> </u>	<u> </u>

Emoluments disclosed above include the following amounts paid to the highest paid director

Emoluments for qualifying services	456,698	142,268
	<u> </u>	<u> </u>

The number of directors for whom retirement benefits are accruing under defined contribution schemes amounted to 3 (2005 - 3)

27 Employees

Number of employees

The average monthly number of employees (including directors) during the year was

	2006	2005
	Number	Number
Operations	370	252
Sales	2	3
Administration	95	119
	<u> </u>	<u> </u>
	467	374
	<u> </u>	<u> </u>

Employment costs

	2006	2005
	£	£
Wages and salaries	10,673,555	7,558,803
Social security costs	1,064,982	689,614
Other pension costs	114,521	59,190
	<u> </u>	<u> </u>
	11,853,058	8,307,607
	<u> </u>	<u> </u>

28 Control

The entire share capital of the company is controlled by the company's directors

Direct Solutions International Limited

Notes To The Group Financial Statements (continued) For the year ended 31 July 2006

29 Related party transactions

The company has taken advantage of the exemption conferred by FRS 8 not to disclose transactions with subsidiaries where 90% or more of voting rights are controlled with the group

Related party transactions during the year were as follows

Joint ventures and participating interests

		2006	2005
		£	£
European Direct Mail Specialists Limited	Sales	589,123	701,063
	Management charges	40,000	50,000
dsi Billing Services Limited	Sales	624,575	814,991
	Management charges	-	36,900
	Costs recharged	67,177	859,342
The Database Centre Limited	Sales	6,333	22,130
Response Handling Centre Limited	Sales	13,314	2,029
	Management charge	11,700	37,400
	Costs recharged	21,026	21,049
dsi International Distribution Limited	Sales	114,553	28,475
	Management charge	-	2,215
	Purchases	136,577	62,684
dsi Sameday Express Limited	Purchases	473,034	580,369

Other related parties

SNRG Limited	Sales	771,494	605,726
	Purchases	3,158	-
Colourworks Docklands Limited	Sales	483,429	58,018
	Purchases	753,048	26,332
Worthyvale Limited (controlled by M Felstead)	Purchases	24,000	33,194
	Costs recharged	10,224	-

The following balances were outstanding at the year end

		2005	2005
		£	£
European Direct Mail Specialists Limited	Debtor	166,900	208,816
dsi Billing Services Limited	Debtor	148,056	77,442
dsi International Distribution Limited	Debtor/(Creditor)	3,148	(2,767)
SNRG Limited	Debtor	106,689	149
Colourworks Docklands Limited	(Creditor)/Debtor	(58,466)	10,436
dsi Sameday Express Limited	Debtor	104,558	72,876