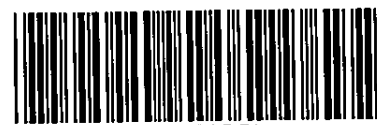


Registered no 03616858

XCHANGING UK LIMITED

Annual report

for the period ended 31 December 2012



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XCHANGING UK LIMITED

Annual report for the period ended 31 December 2012

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Directors and advisors

Directors

K Lever
D Bauernfernd

Secretary

G N Whitaker

Registered office

34 Leadenhall Street
London
EC3A 1AX

Independent auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Solicitors

Clifford Chance LLP
10 Upper Bank Street
London E14 5JJ
United Kingdom

Bankers

Lloyds TSB Bank plc
PO Box 72
Bailey Drive
Gillingham Business Park
Gillingham
Kent
ME8 0LS

Barclays Bank PLC
1 Churchill Place
London

Directors' report for the period ended 31 December 2012

The directors present their report and the audited financial statements for Xchanging UK Limited, for the period ended 31 December 2012

Principal activities

The company acts as a management company for its ultimate parent undertaking, Xchanging plc and its subsidiaries ('the Xchanging plc group'). The services provided comprise implementation, software development, financing support, general management and support functions. In return for the provision of these services the company receives royalties and performance fees, interest, as well as recharging the costs of directly attributable time and resources.

Review of business and future developments

The company results are set out in the profit and loss account on page 8.

The company has changed its accounting reference date from 31 August to 31 December as part of various restructuring arrangements being undertaken by the Xchanging plc group.

The company continued to act as a management company for the Xchanging plc group. Both the level of business of the company and the period end position are in line with expectations.

During the period the company has incurred the following exceptional items,

- £18,288,000 charge relating to impairment of an intercompany loan
- £616,000 relating to impairment of a fixed asset investment
- £2,377,000 charge in respect of provisions for the workers compensation liabilities of Cambridge Integrated Services Group Inc for claims that were open prior to the sale of the business assets in 2011. The provisions recognised are to cover periodic payments under the scheme and a letter of credit issued to the carrying agent
- £494,000 charge relating to restructuring activities
- £236,000 charge for the renegotiation of the group's external financing facilities

In the 8 months to 31 August 2011, the company recorded exceptional operating costs of £2,925,000 relating to restructuring activities, exceptional finance costs of £1,770,000 relating to refinancing of the group's debt facility, and an exceptional impairment of a fixed asset investment of £3,559,000.

Key performance indicators

The directors of Xchanging UK Limited manage the operations of the entity on a cost centre basis. For this reason, the company's directors believe that analysis using key performance indicators for the company is not necessary or appropriate for an understanding of the development, performance or position of the business of Xchanging UK Limited.

Directors' report for the period ended 31 December 2012 (continued)

Financial risk management

The financial risk management objectives and policies of the company are the same as for the Xchanging plc group. The company complies with the Xchanging plc group financial risk management policies as the directors consider these to be appropriate. These are set out below.

The group is exposed to a variety of financial risks which are reviewed on a regular basis in order to limit the adverse effects on the financial performance of the group.

- (i) **Foreign exchange risk**
As part of the Xchanging plc group there are overseas operations in Continental Europe, Australia, India and the United States of America. The group also holds equity investments in Europe. The group is exposed to foreign exchange rate risks primarily with respect to the Euro, Australian dollar, United States Dollar and Indian Rupee.
- (ii) **Interest rate cash flow risk**
The group has interest bearing liabilities. The group has a policy of maintaining debt at a floating rate which gives rise to risk of future interest cash flows. The directors will revisit the appropriateness of this policy should the group's operations change in size or nature.
- (iii) **Credit risk**
The group has a concentration of credit risk with respect to trade receivables due to the nature and structure of the enterprise partnerships, however many of the Xchanging plc group entities are now 100% owned hence minimising the credit risk. Credit risk assessments are performed as the Xchanging plc group signs new enterprise partnership and new customer contracts.
- (iv) **Price risk**
The group has equity securities price risk as it holds listed equity investments. This risk is reviewed on a regular basis to assess the appropriateness of the investments and to limit the adverse effects on the financial performance of the group.
- (v) **Liquidity risk**
The group actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the Xchanging plc group has sufficient available funds for operations and planned expansions.

The principal risks facing Xchanging UK Limited are foreign exchange risk, credit risk and price risk but this is limited as reflected by the above comments.

Results and dividends

The group's loss for the period was £19,403,000 (2011 loss £8,190,000). No dividends have been paid or proposed.

Going concern

Notwithstanding the group's net current liability position at the period end, given the importance of Xchanging UK Limited to the Xchanging plc group, the directors have prepared the financial statements on a going concern basis as they have obtained confirmation of the support of the ultimate parent company, Xchanging plc.

**Directors' report
for the period ended 31 December 2012 (continued)****Directors**

The directors who held office during the period, or from the date of their appointment if held for only part of the period, and up to the date of signing the financial statements were

Name	Resigned	Appointed
K Lever	-	-
D Bauernfeind	-	-

Research and development

The company incurs development costs in the design and implementation of processes and systems that substantially improve those already installed across the Xchanging plc group. The improvement of processes and systems covers two phases: re-alignment and streamlining. Re-alignment activities include business process mapping, staff restructuring and process reorganization. Streamlining activities include management structuring, IT and site consolidation and supplier rationalization.

Employment policies

The group is committed to employment policies, which follow best practice, based on equal opportunities for all employees, irrespective of sex, race, colour, disability, marital status, age or religion. The group is also committed to providing employees with information on matters of concern to them on a regular basis, so that the views of employees can be taken into account when making decisions that are likely to affect their interests.

Employees are kept well informed of performance and objectives of the group through regular email communications and periodic briefings by senior management.

Disabled persons

It is the policy of the group to offer appropriate training and career development to disabled persons as far as possible that are identical to other employees, in line with best practice. In the event of a member of staff becoming disabled every effort is made by the group to continue employment and arrange appropriate retraining and offer opportunities for promotion.

Creditor payment policy

The company aims to pay suppliers in accordance with the suppliers' contract terms. The company had an average of 39 days purchases outstanding in trade creditors as at 31 December 2012 (8 months to 31 August 2011: 28 days).

**Directors' report
for the period ended 31 December 2012 (continued)****Statement of disclosure of information to auditors**

Each director of the company, in office at the time of approval of this report, acknowledges that

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial period. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 accounting 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,
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006. 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.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office. The company has elected to dispense with the requirement to appoint auditors annually, therefore, in the absence of a notice proposing that the appointment be terminated, PricewaterhouseCoopers LLP will continue as auditors to the company.

By order of the board


D Bauernfeind
Director
15 April 2013

**Independent auditors' report to the members of
XCHANGING UK LIMITED**

We have audited the company financial statements (the "financial statements") of Xchanging UK Limited for the period ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the statement of directors' responsibilities set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the financial statements

- give a true and fair view of the state of company's affairs as at 31 December 2012 and of its loss for the period then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

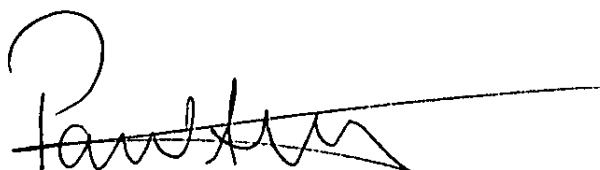
**Independent auditors' report to the members of
XCHANGING UK LIMITED (continued)****Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Paul Aitken (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
15 April 2013

Profit and loss account

	Note	Period ended 31 December 2012 £'000	Period ended 31 August 2011 £'000
Revenue – continuing operations	2	32,419	8,459
Operating costs – continuing operations	3	(23,344)	(8,507)
Operating costs – exceptional items	4	(21,159)	(2,925)
Total operating costs		(44,503)	(11,432)
Operating loss – continuing operations		(12,084)	(2,973)
Net finance costs – continuing operations	7	(633)	(1,741)
Finance costs – exceptional items	4	(236)	(1,770)
Total net finance costs		(869)	(3,511)
Income from fixed asset investments		172	-
Impairment of fixed asset investments	4	(616)	(3,559)
Loss on ordinary activities before taxation		(13,397)	(10,043)
Tax (charge)/credit on loss on ordinary activities	8	(6,006)	1,853
Loss for the financial period	20	(19,403)	(8,190)

The company had no gains or losses other than those included in the results above, therefore no separate statement of total recognised gains and losses has been presented

There is no difference between the loss on ordinary activities before taxation and the loss for the financial period stated above and their historical cost equivalents


The notes on pages 10 to 29 form part of these financial statements

Balance sheet as at 31 December 2012

	Note	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Fixed assets			
Intangible assets	9	1,365	3,067
Tangible assets	10	918	2,435
Investments	11	58,302	33,958
		<u>60,585</u>	<u>39,460</u>
Current assets			
Debtors	12	189,213	165,012
Cash at bank and in hand		310	179
		<u>189,523</u>	<u>165,191</u>
Creditors amounts falling due within one year	14	(266,316)	(187,176)
Net current assets/(liabilities)		<u>(76,793)</u>	<u>(21,985)</u>
Total assets less current liabilities		(16,208)	17,475
Creditors amounts falling due after more than one year	15	(29,696)	(45,202)
Provisions for liabilities	18	(2,035)	(1,114)
Net liabilities		<u>(47,939)</u>	<u>(28,841)</u>
Capital and reserves			
Called up share capital	19	9,285	9,285
Share premium account	20	3,385	3,385
Profit and loss reserve	20	(60,609)	(41,511)
Equity shareholder's deficit	21	<u>(47,939)</u>	<u>(28,841)</u>

Registered no: 03616858

The financial statements on pages 8 to 29 were approved by the board of directors on 15 April 2013 and were signed on its behalf by


D Bauernfeind
 Director
 15 April 2013

Notes to the financial statements for the period ended 31 December 2012

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with the Companies Act 2006 and applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which, unless otherwise stated, have been applied consistently with the prior year, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate based on projections for the foreseeable future. Xchanging plc will continue to provide support while the company has a net current liability position.

Cash flow statement and non-consolidation of subsidiary undertakings

The company is a wholly owned subsidiary of Xchanging plc and is included in the consolidated financial statements of Xchanging plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of Financial Reporting Standard 1 (revised 1996) and has also taken advantage of the exemption from preparing consolidated financial statements under the terms of s400 of the Companies Act 2006.

Revenue

Revenue, which is stated exclusive of value added tax, is recognised only when it is probable that the economic benefits associated with a transaction will flow to the company. Revenue represents royalties and performance fees from the Xchanging plc group, in the United Kingdom and Europe. Royalty income is calculated on a turnover based formula and has been accounted for on an accruals basis over the period in which the royalties fall due.

Exceptional items

Exceptional items are events or transactions that fall outside the ordinary activities of the Company, and which by virtue of their size or incidence, have been separately disclosed in order to improve a reader's understanding of the financial statements. These include impairment losses and other one-off events or transactions.

Pre-contract costs

Pre-contract costs comprise legal and other professional expenses and other directly attributable staff costs incurred in order to obtain a relevant contract.

Costs that are directly attributable to a contract are capitalised when it is virtually certain that the contract will be awarded and the contract will result in future net cash inflows with a present value no less than all amounts recognised as an asset. These pre-contract costs are included within debtors and are amortised over the life of the contract, starting from the date when the contract commences.

**Notes to the financial statements
for the period ended 31 December 2012 (continued)****1 Principal accounting policies (continued)****Development costs**

Development costs are stated at cost less a provision for amortisation and any provision for impairment

Costs incurred during the development period of new contracts, where there is a clearly defined project which includes an appreciable element of innovation including the costs of process and system designs that substantially improve those processes and systems already installed in the enterprise partnerships and where the related expenditure is clearly identifiable and is expected to be exceeded by future economic benefits, are treated as development costs. These costs are capitalised and amortised over the life of the contract. Costs that are capitalised comprise directly attributable incremental costs incurred during implementation, including wages and salaries of staff employed solely for the purpose of implementing new contracts, and third party costs.

Development costs do not include restructuring costs, (including redundancy, early termination penalties and such like) or allocation of central overheads, which are all expensed to the profit and loss account as they are incurred.

Impairment reviews are performed annually to ensure the present value of estimated future revenue streams from the associated contracts exceeds the capitalised costs.

Finance costs

Finance costs are charged to the income statement using the effective interest rate method.

Intangible fixed assets

Intangible assets, including acquired software licenses, are recorded at cost. Intangible assets are amortised on a straight-line basis over the useful life of the assets, which normally does not exceed five years. Impairment reviews are performed annually.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Software development costs are capitalised where they meet the requirement for recognition under Financial Reporting Standard 10. Where the criteria for capitalisation are not met, software development expenditure is expensed as incurred.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computer equipment	33%
Fixtures & fittings	25%
Software development	20%
Leasehold improvements	20%

Fixed asset investments

Fixed asset investments are stated at cost less any provision for impairment. Impairment reviews are conducted at the end of the first full year following acquisition and thereafter where indicators of impairment are present.

**Notes to the financial statements
for the period ended 31 December 2012 (continued)****1 Principal accounting policies (continued)****Borrowings**

An exchange or modification of a debt instrument should be accounted for as an extinguishment where there are "substantially different terms" attached to the debt instrument. Management assess whether the terms of the new or modified instrument are substantially different by considering both quantitative and qualitative factors. In accounting for an extinguishment, the new or modified debt instrument is initially recorded at net proceeds, being the fair value of the debt the company has been released from. Any gain or loss, being the difference between the net proceeds and the previous carrying amount, arising on extinguishment is recognised as an exceptional finance cost in the profit and loss account in the period in which the extinguishment arises. The gain or loss on extinguishment would also include any costs and fees payable to third parties in relation to the exchange or modification.

Foreign currencies

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

Operating leases

Rental costs under operating leases are charged to the profit and loss account on a straight-line basis over the lease term.

Pensions

The costs of providing defined contribution pensions and related benefits are charged to the profit and loss account as incurred.

Share based incentives

In accordance with FRS 20, the fair value of equity-settled share-based payments to employees is determined at the date of the grant and is expensed on a straight line basis over the vesting period based on the group's estimate of shares or options that will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model. Further information on the Group's share schemes are disclosed in the Xchanging plc Annual Report (available from <http://www.xchanging.com>).

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 that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date. However, deferred tax assets are regarded as recoverable and therefore recognised, only when, on the basis of all available evidence, the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the 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.

Notes to the financial statements for the period ended 31 December 2012 (continued)

1 Principal accounting policies (continued)

Related party transactions

The company has taken advantage of the exemption available in Financial Reporting Standard 8 not to disclose transactions with entities that are wholly owned subsidiaries of the Xchanging plc group. All other related party transactions are disclosed in note 23. Xchanging UK Limited is itself a wholly owned subsidiary of the Xchanging plc group.

2 Revenue

	By destination Period ended 31 December 2012 £'000	By destination Period ended 31 August 2011 £'000
United Kingdom	11,928	6,897
Continental Europe	20,491	1,562
	<u>32,419</u>	<u>8,459</u>

3 Operating costs – continuing operations

	Period ended 31 December 2012 £'000	Period ended 31 August 2011 £'000
Operating costs – continuing operations comprise:		
Staff costs:		
Wages and salaries	6,616	4,319
Wages and salaries recharged to associated companies	(2,699)	(2,250)
Social security costs	728	518
Equity settled share based payment charge	328	558
Other pension costs	192	129
	<u>5,165</u>	<u>3,274</u>
Other operating charges	18,179	5,233
	<u>23,344</u>	<u>8,507</u>
 Other operating costs include the following		
Depreciation – owned tangible assets (note 10)	1,467	636
Amortisation of intangible assets (note 9)	1,051	1,017
Amounts written off intangible assets (note 9)	667	-
Amortisation of pre-contract costs (note 13)	346	235
Operating lease – property (note 24)	2,853	1,605
Auditors' remuneration – audit services	31	90
Auditors' remuneration – non-audit services – taxation	60	469
Foreign exchange loss/(gain)	1,283	(1,176)

Notes to the financial statements for the period ended 31 December 2012 (continued)

4 Exceptional items

	Period ended 31 December 2012 £'000	Period ended 31 August 2011 £'000
Operating costs:		
Impairment of intercompany loan	18,288	-
Provisions against claims	2,377	-
Restructuring costs	494	2,852
Disposal costs	-	73
	<u>21,159</u>	<u>2,925</u>
Finance costs:		
Loan facility arrangement costs	236	4,038
Gain on extinguishment of debt facility	-	(2,268)
	<u>236</u>	<u>1,770</u>
Investment impairment:		
Fixed asset investment impairment	<u>616</u>	<u>3,559</u>

The impairment of an intercompany loan of £18,288,000 relates to provision made against the recoverability of an intercompany loan made to fund Xchanging plc group's operations in the United States of America

Provisions against claims of £2,377,000 have been made in respect of the workers compensation liabilities of Cambridge Integrated Services Group Inc, for claims that were open prior to the sale of the business assets in 2011, to cover periodic payments under the scheme and a letter of credit issued to the carrying agent

Restructuring costs of £494,000 relate to the rationalisation of the group's resources and central functions

Loan facility arrangement costs of £236,000 relate primarily to fees payable to the lender and third parties in relation to the renegotiation of the group's external debt facilities

Fixed asset investment impairment of £616,000 relates to the investment the company holds in CAD IT, which has experienced a significant and prolonged decline in value and therefore has been re-stated to market value

Notes to the financial statements for the period ended 31 December 2012 (continued)

5 Directors' emoluments

	Period ended 31 December 2012 £'000	Period ended 31 August 2011 £'000
Directors' emoluments		
Aggregate emoluments	<u>1,892</u>	<u>1,190</u>
Company pension contributions to money purchase schemes	<u>8</u>	<u>5</u>
Highest paid director		
Aggregate emoluments	<u>1,208</u>	<u>592</u>

One director accrued benefits under a defined contribution pension scheme (2011 two directors)
No directors exercised options over shares of Xchanging plc in the period (2011 no directors)

6 Employees

The average monthly number of persons (including executive directors) employed by the company was

	Period ended 31 December 2012 Number	Period ended 31 August 2011 Number
By activity		
Selling and distribution	7	4
Administration	47	87
	<u>54</u>	<u>91</u>

During the period, an average of eight employees of the group included in the number above were on secondment to other Xchanging plc group companies (2011 8)

Notes to the financial statements for the period ended 31 December 2012 (continued)

7 Net finance costs – continuing operations

	Period ended 31 December 2012 £'000	Period ended 31 August 2011 £'000
Bank and other interest payable	4,022	1,777
Intercompany interest payable	277	-
Unwinding of discount on lease provision	-	9
Amortisation of loan fees	-	180
Foreign exchange loss on revaluation of debt	33	-
Accretion of interest on debt	618	169
Total interest and similar charges payable	<u>4,950</u>	<u>2,135</u>
Intercompany interest receivable	(4,317)	(361)
Foreign exchange gain on revaluation of debt	-	(33)
	<u>(4,317)</u>	<u>(394)</u>
Net finance costs – continuing operations	<u>633</u>	<u>1,741</u>

Notes to the financial statements for the period ended 31 December 2012 (continued)

8 Tax on loss on ordinary activities

	Period ended 31 December 2012 £'000	Period ended 31 August 2011 £'000
Current tax		
UK corporation tax charge/(credit) on loss for the period	3,118	(1,619)
Adjustments in respect of prior years	500	-
Current tax charge/(credit) for the period	<u>3,618</u>	<u>(1,619)</u>
Deferred tax		
Impact of reduction in statutory tax rate	301	-
Adjustments in respect of prior years	(407)	-
Utilisation of brought forward tax losses	1,891	-
Other timing differences	603	(234)
	<u>2,388</u>	<u>(234)</u>
Total tax charge/(credit)	<u>6,006</u>	<u>(1,853)</u>

Factors affecting the current tax charge for the year

The tax charge for the period is higher (2011 lower) than the standard effective rate of corporation tax in the UK for the period ended 31 December 2012 of 24.9% (2011 26.8%). The differences are explained below

	Period ended 31 December 2012 £'000	Period ended 31 August 2011 £'000
Loss on ordinary activities before tax	<u>(13,397)</u>	<u>(10,043)</u>
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.9% (2011 26.8%)	(3,336)	(2,611)
Effects of		
Transfer pricing adjustment	1,390	571
Other short term timing differences	(2,391)	130
Expenses not deductible for tax purposes	30	336
Adjustments in respect of prior years	2,422	-
Other impairment	5,503	-
Impact of reduction in statutory tax rate	-	(45)
Current tax charge/(credit)	<u>3,618</u>	<u>(1,619)</u>

Notes to the financial statements for the period ended 31 December 2012 (continued)

8 Tax on loss on ordinary activities (continued)

Factors that may affect future tax charges

The Finance Act 2012, which was substantially enacted on 5 July 2012, includes legislation reducing the main rate of corporation tax from 25% to 24% from 1 April 2012 and to 23% from 1 April 2013. The change from 25% to 23% has been reflected in the closing deferred tax balances included in these financial statements.

Proposed further reductions of the main rate of corporation tax to 21% by 1 April 2014 and to 20% by 1 April 2015 are expected to be enacted separately. This change had not been substantially enacted at the balance sheet date and therefore is not included in these financial statements.

9 Intangible fixed assets

	Development costs £'000	Software Licences £'000	Total £'000
Cost			
At 1 September 2011	14,596	1,550	16,146
Additions	-	16	16
At 31 December 2012	14,596	1,566	16,162
Accumulated Amortisation			
At 1 September 2011	11,683	1,396	13,079
Charge for the period	981	70	1,051
Written off in the period	667	-	667
At 31 December 2012	13,331	1,466	14,797
Net book value			
At 31 December 2012	1,265	100	1,365
At 31 August 2011	2,913	154	3,067

Intangible assets of £667,000 relating to the implementation of the Xchanging Business Services (XBS) contract were written off in the period, as a result of an impairment review.

Notes to the financial statements for the period ended 31 December 2012 (continued)

10 Tangible fixed assets

	Software development costs £'000	Computer equipment £'000	Leasehold improvements £'000	Fixtures & fittings and Office equipment £'000	Assets in the course of development £'000	Total £'000
Cost						
At 1 September 2011	11,167	3,290	4,630	749	303	20,139
Additions	152	81	32	-	-	265
Disposals	-	-	(1,377)	-	-	(1,377)
Transfers	303	-	-	-	(303)	-
At 31 December 2012	11,622	3,371	3,285	749	-	19,027
Accumulated Depreciation						
At 1 September 2011	10,524	2,495	4,004	681	-	17,704
Charge for the period	626	612	179	50	-	1,467
Disposals	-	-	(1,062)	-	-	(1,062)
At 31 December 2012	11,150	3,107	3,121	731	-	18,109
Net book value						
At 31 December 2012	472	264	164	18	-	918
At 31 August 2011	643	795	626	68	303	2,435

Notes to the financial statements for the period ended 31 December 2012 (continued)

11 Investments

	Fixed asset investments £'000
At 31 August 2011	33,958
Additions	24,960
Impairments	(616)
At 31 December 2012	<u>58,302</u>

Fixed asset investments comprise,

- Equity shares listed on the Borsa Italia with a cost of £6,584,000 (2011 £6,584,000) These shares had a market value of £2,409,000 at 31 December 2012 (At 31 August 2011 £3,025,000) An impairment charge of £616,000 has been recognised in the period, to reflect a significant and prolonged decline in market value
- Compulsory Convertible Debentures ("CCDs") in Xchanging Technology Services India Private Limited ("XTSI"), with a cost of £30,933,000 After the second anniversary of issue, Xchanging UK Limited can exercise the right to convert all or part of the CCDs into equity shares of XTSl, with a face value of INR 10 The conversion price is a minimum of INR 3,200 per share If Xchanging UK Limited have not exercised their right to convert by the expiry date, then the CCDs shall compulsorily convert into equity shares of XTSl During the term, or until conversion, Xchanging UK Limited is entitled to receive an annual coupon of 10%, which is payable in advance on a semi annual basis
- Additions of £24,960,000 reflecting an investment in Xchanging Funding Limited, an intermediate holding company, for the purposes of funding group undertakings

The company has the following investments in wholly owned subsidiaries

Name	Country of incorporation	Principal activity	Cost of Equity Shares Held	
			As at 31 Dec 2012	As at 31 Aug 2011
Directly held:			£	£
Infrex Limited	England and Wales	Dormant	1	1
Xchanging Procurement Services (No 2) Limited	England and Wales	Dormant	1	1
Xchanging Business Services Limited	England and Wales	Dormant	1	1
HR Opco Limited	England and Wales	Dormant	1	1
Xchanging Funding Limited	England and Wales	Funding of fellow group undertakings	1	-
			<u>5</u>	<u>4</u>

Notes to the financial statements for the period ended 31 December 2012 (continued)

12 Debtors

	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Amounts falling due within one year:		
Amounts owed by fellow subsidiary undertakings	186,598	154,087
Consortium relief receivable	-	5,451
Corporation tax	-	16
Other debtors	442	161
Prepayments and accrued income	760	892
Pre-contract costs (note 13)	163	274
	<u>187,963</u>	<u>160,881</u>
Amounts falling due after more than one year:		
Pre-contract costs (note 13)	415	908
Deferred tax asset (note 17)	835	3,223
Amounts owed by fellow subsidiary undertakings	-	-
	<u>1,250</u>	<u>4,131</u>
Total debtors	<u>189,213</u>	<u>165,012</u>

Included in amounts owed by fellow subsidiary undertakings are,

- a loan due from Xchanging Procurement Services (Europe) SAS of €3,455,000 (2011 €438,000) The loan is unsecured, has no fixed date of repayment, with interest being charged at 3% above EURIBOR
- a loan due from Xchanging Global Insurance Solutions Limited of £8,824,000 (2011 £7,706,000) The loan is unsecured, has no fixed date of repayment, with interest being charged at 1.25% above The Bank of England Base Rate
- loans due from the Xchanging plc Groups' European subsidiaries in the Procurement Division totalling €950,000 (2011 £nil) The loans are unsecured, have no fixed date of repayment, and bear interest at 3.5% above LIBOR
- a loan due from Xchange Limited of £1,800,000 (2011 £nil) The loan is unsecured, has no fixed date of repayment, with interest being charged at 3.5% above LIBOR
- a loan due from Ferguson Snell Associates Limited of £400,000 (2011 £nil) The loan is unsecured, has no fixed date of repayment, with interest being charged at 3.5% above LIBOR
- a loan due from Xchanging Deutschland KG of €400,000 (2011 £nil) The loan is unsecured, has no fixed date of repayment, with interest being charged at 3.5% above LIBOR

Notes to the financial statements for the period ended 31 December 2012 (continued)

12. Debtors (cont.)

All other amounts owed by fellow subsidiary undertakings are unsecured, interest free and have no fixed date of repayment

13 Pre-contract costs

	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Net book value at start of period	1,182	1,417
Pre-contracts costs written off in period	(258)	-
	<u>924</u>	<u>1,417</u>
Amortisation charge for the year	(346)	(235)
Net book value at 31 December 2012	<u>578</u>	<u>1,182</u>

14 Creditors: amounts falling due within one year

	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Trade creditors	1,215	1,381
Amounts owed to group undertakings	229,337	174,342
Corporation tax	4,483	-
Taxation and social security	1,192	552
Other creditors	7	108
Accruals and deferred income	5,345	4,084
Bank loans and overdrafts	24,737	6,709
	<u>266,316</u>	<u>187,176</u>

Included in amounts owed to fellow subsidiary undertakings are,

- a loan due to Xchanging Procurement Services Limited of £10,000,000 (2011 £nil) The loan is unsecured, has no fixed date of repayment, with interest being charged at 2% above LIBOR
- a loan due to Fondesdepot bank gmbh of €1,400,000 (2011 £nil) The loan is unsecured, has no fixed date of repayment, with interest being charged at 2% above LIBOR

All other amounts owed to group undertakings included in the above balance are unsecured, interest free and have no fixed date of repayment

Notes to the financial statements for the period ended 31 December 2012 (continued)

15 Creditors: amounts falling due after more than one year

	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Bank loans	29,656	45,159
Tax and social security	40	43
	<u>29,696</u>	<u>45,202</u>

16 Bank borrowings

	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Due within one year or on demand:		
Secured bank loans and overdrafts	24,737	6,709
Due after more than one year:		
Secured bank loans	29,656	45,159
Total borrowings	<u>54,393</u>	<u>51,868</u>

The secured bank loans and overdrafts are secured by a guarantee provided to the lender by the Xchanging plc group and its subsidiaries. Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents.

17 Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 26%) for differences arising in the UK.

The movements in deferred tax assets are shown below:

	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Opening balance	3,223	2,989
Profit and loss (charge)/credit (Note 8)	(2,388)	234
Closing balance	<u>835</u>	<u>3,223</u>

The closing deferred tax balance primarily relates to timing differences arising on fixed assets.

Notes to the financial statements for the period ended 31 December 2012 (continued)

18 Provisions for liabilities

	Restructuring £'000	Property Lease £'000	Provisions for claims £'000	Total £'000
At 31 August 2011	765	349	-	1,114
Provided in the period	-	-	2,377	2,377
Released in the period	-	(349)	-	(349)
Utilised in the period	(765)	-	(342)	(1,107)
At 31 December 2012	-	-	2,035	2,035
At 31 December 2012				
Amounts falling due within one year	-	-	-	-
Amounts falling due after more than one year	-	-	2,035	2,035
	-	-	2,035	2,035
At 31 August 2011:				
Amounts falling due within one year	765	-	-	765
Amounts falling due after more than one year	-	349	-	349
	765	349	-	1,114

Provisions for claims of £2,377,000 have been made in respect of workers compensation liabilities of Cambridge Integrated Services Group Inc for claims that were open prior to the sale of the business assets in 2011, to cover periodic payments under the scheme and a letter of credit issued to the carrying agent

**Notes to the financial statements
for the period ended 31 December 2012 (continued)**

19 Called up share capital

	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Authorised		
35,000,000 ordinary shares of £1 each	<u>35,000</u>	<u>35,000</u>
Allotted, called up and fully paid		
9,285,017 ordinary shares of £1 each	<u>9,285</u>	<u>9,285</u>

20 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 September 2011	3,385	(41,511)
Loss for the financial year	-	(19,403)
Equity settled employee share based payment credit	-	305
At 31 December 2012	<u>3,385</u>	<u>(60,609)</u>

Notes to the financial statements for the period ended 31 December 2012 (continued)

21 Reconciliation of movements in shareholders' deficit

	As at 31 December 2012 £'000	As at 31 August 2011 £'000
Opening equity shareholders' deficit	(28,841)	(21,183)
Retained loss for the financial year	(19,403)	(8,190)
Equity settled employee share based payment credit	305	532
Closing equity shareholders' deficit	<u>(47,939)</u>	<u>(28,841)</u>

22 Pensions

The company participates in a defined contribution pension scheme run for the employees of Xchanging UK Limited. The pension cost for the year was £192,000 (2011 £129,000). There were no outstanding contributions at the balance sheet date (2011 £nil).

Notes to the financial statements for the period ended 31 December 2012 (continued)

23 Related party transactions

The companies set out below are considered to be related parties of the company as they all share the same ultimate controlling party, Xchanging plc. A description of the nature of the services provided by/(to) the related parties of the company and the amounts receivable/(payable) in respect of them at 31 December 2012, are set out in the following table

Services provided by/(to) the company	Revenue/(charge)		Receivable/(payable)	
	Period ended	Period ended	As at 31	As at 31
	31 December 2012 £'000	31 August 2011 £'000	December 2012 £'000	August 2011 £'000
Ins-Sure Services Limited				
- Royalties	5,347	2,403	4,059	2,403
- Seconddees, Desk charges, IT & Other expenses	3,198	1,866	468	477
- Seconddees, IT & Other expenses	(93)	(61)	(83)	(37)
Xchanging Claims Services Limited				
- Royalties	2,997	1,432	2,215	1,432
- Seconddees, Desk charges, IT & Other expenses	4,062	2,476	446	760
- Seconddees, IT & Other expenses	(14)	(4)	(21)	(13)
Xchanging Broking Services Limited				
- Royalties	1,126	1,329	881	1,329
- Seconddees, Desk charges, IT & Other expenses	582	255	9	230
Xchanging Transaction Bank GmbH				
- Royalties	21,563	118	9,337	119
- Seconddees, Desk charges, IT & Other expenses	821	285	108	228
- Seconddees, IT & Other expenses	(224)	(340)	(389)	(337)
Fondsdepot Bank GmbH				
- Royalties	(1,072)	1,443	(1,687)	1,459
- Seconddees, Desk charges, IT & Other expenses	11	31	108	9
Xchanging Solutions Pte Limited				
- Seconddees, Desk charges, IT & Other expenses	-	24	6	22
- Seconddees, IT & Other expenses	(74)	(31)	(28)	(15)
Xchanging Solutions Europe Limited				
- Seconddees, Desk charges, IT & Other expenses	22	6	14	6

Notes to the financial statements for the period ended 31 December 2012 (continued)

23 Related party transactions (continued)

Services provided by/(to) the company	Revenue/(charge)		Receivable/(payable)	
	Period ended	Year ended	As at 31	As at 31
	31 December 2012 £'000	31 August 2011 £'000	December 2012 £'000	August 2011 £'000
Xchanging Integrated Services Group, Inc.				
- Secondees, Desk charges, IT & Other expenses	10	570	-	17,390
Xchanging Integrated Services Victoria Pty Limited				
- Secondees, Desk charges, IT & Other expenses	(114)	9	5	5
Xchanging Integrated Services Australia Pty Limited				
- Secondees, Desk charges, IT & Other expenses	21	9	-	5
Xchanging Solutions Limited India				
- Secondees, Desk charges, IT & Other expenses	(179)	137	28	73
- Secondees, IT & Other expenses	61	(2)	(29)	(9)
Scandent Group, Inc				
- Secondees, IT & Other expenses	(183)	(167)	2	(36)
Xchanging Italy S.P.A (formerly Kedrios S.P.A)				
- Secondees, Desk charges, IT & Other expenses	-	65	4	65
- Secondees, IT & Other expenses	46	(634)	(100)	(638)

Notes to the financial statements for the period ended 31 December 2012 (continued)

24 Operating lease commitments

Company

	Property As at 31 December 2012 £'000	Property As at 31 August 2011 £'000
Annual commitments under non-cancellable operating leases expiring		
Less than one year	-	-
Between one to five years	-	298
More than five years	2,100	2,100
	<u>2,100</u>	<u>2,398</u>

25 Parent undertaking and ultimate controlling party

The immediate parent company is Xchanging B V

The ultimate parent company is Xchanging plc, a company incorporated in England and Wales. The results of Xchanging UK Limited for the year ended 31 December 2012 are included in the Xchanging plc consolidated financial statements, copies of which may be obtained from Xchanging plc, 34 Leadenhall Street, London EC3A 1AX. Xchanging plc is the only company to consolidate the results of Xchanging UK Limited.