Registered no 04071566

XCHANGING HR SERVICES LIMITED
(Formerly Togethr HR Services Limited)

Annual report

for the year ended 31 December 2006

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(Formerly Togethr HR Services Limited)

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for the year ended 31 December 2006

XCHANGING HR SERVICES LIMITED
(Formerly Togethr HR Services Limited)

Directors and advisors

Directors

D W Andrews
S Bayliffe
S Bouvier
R Houghton
D Rich-Jones
P Rushton

Secretary

J Davies

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

Bankers

Lloyds TSB
City Office
PO Box 72
Gillingham Business Park
Kent
ME8 0LS

XCHANGING HR SERVICES LIMITED
(Formerly Togethr HR Services Limited)

Directors' report
for the year ended 31 December 2006

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

Business Review and Principal Activities

The company is engaged in Business Process Outsourcing in Human Resources It aims to offer customers a best-in-class integrated or individual HR and Payroll services Service offerings include pensions administration, graduate recruitment, training, performance management and resource management

Both the level of business and the year end financial position of the group were in line with expectations Xchanging HR Services' business model has been based around the BAE Systems core contract and supplementing this with third party revenue from smaller suites of services and individual project type services and products

In September 2006 Xchanging HR Services was appointed to run the HR and Payroll outsourcing for the University Hospital Birmingham (UHB)

Future Outlook

The directors expect an increase in the level of activity over the next year as the company breaks into the UK Public Sector with specific emphasis on the National Health Service through its relationship with UHB The company is also taking steps to implement a variable pricing structure for the BAE Systems contract, which will enable it to cover individual services rather than a fully integrated service, thereby enabling it to generate additional revenue

Subsequent Events

On 16th January 2007 the 50% of the company owned by BAE was acquired by the company's immediate parent company, HR Holdco Ltd The company is now owned 100% by that company

Principal Risks and Uncertainties

The market is highly competitive and there are a high number of companies providing HR in one service line or another The ability to provide total solutions to customers has become increasingly important This has led to increased market consolidation as companies seek to extend their service offerings This trend is likely to continue

Xchanging seeks to differentiate itself from its competitors through emphasis on detailed service performance measurements and innovative pricing which is a key differentiator

Key Performance Indicators

The directors of HR Enterprise Limited use a range of Key Performance Indicator's (KPI's) to measure the business The set of KPI's is constantly reviewed and changes over time with the development of the business The range of measures include customer category profitability and customer satisfaction levels

Directors' report for the year ended 31 December 2006 (continued)

Financial Risk Management

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 company These are set out below

(i) Foreign exchange risk
The company has no overseas operations The company does not use derivative financial instruments as exposure levels are not material

(ii) Interest rate cash flow risk
The company has no interest bearing liabilities The company does not use derivative financial instruments as exposure levels are not material

(iii) Credit risk
The company has a concentration of credit risk with respect to trade receivables due to the nature and structure of the enterprise partnerships Credit risk assessments are performed when signing up to a new enterprise partnership and for new customers

(iv) Liquidity risk
The company actively monitors that it has sufficient funds for operations and any planned expansions The company does not currently make use of any financing arrangements but this will continually reviewed as the business develops and matures

The principal risk facing the company is liquidity risk, but this is limited as reflected by the above comments

Results and dividends

The group results are set out in the profit and loss account on page 10

The company's profit for the year was £834,000 (2005 £1,939,000) The Directors recommended a dividend payment of £834,000 which was approved at a meeting of the Board held on 20th March 2007 (2005 £17 34 per A share and £2 04 per B Share, amounting to a total dividend of £1,939,000) These financial statements do not reflect this dividend payable, which will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ended 31 December 2007

During 2006, a dividend of £17 34 per A share and £2 04 per B Share amounting to £1,939,000 was paid in respect of the dividend declared for the year ended 31 December 2005 (2005 £4 83 per A Share and £15 61 per B Share amounting to £2,044,000)

Directors' report for the year ended 31 December 2006 (continued)

Directors and their interests

The directors who held office during the year and up to the date of signing the financial statements were

Name	Date of appointment	Date of resignation
D W Andrews		
R Houghton		
D Rich-Jones		
A Imrie		16 January 2007
C Richardson		16 January 2007
S Bayliffe	19 May 2006	
B Ierland		16 January 2007
M Green		16 January 2007
L Wallwork		16 January 2007
S Bourne		22 September 2006
S Bouvier		
J Robinson		16 January 2007
P Rushton		

None of the directors had any interest in the shares of the group or the company during the year or as at 31 December 2006

During the year, Mr Andrews and Mr Houghton were also directors of Xchanging BV, the ultimate parent company, and their interests in the shares and share options for Xchanging BV are shown in the financial statements of that company

The other directors and their interests in the shares and share options in the ultimate parent company are shown below

Shareholdings

Scheme shares of Euro 0 01 each	**2006**	2005
D Rich-Jones	**62,500**	62,500

Common shares of Euro 0.01 each	**2006**	2005 or date of appointment
D Rich-Jones	**287,500**	137,500
P Rushton	**42,000**	31,503

G shares of Euro 0.01 each	**2006**	2005
D Rich-Jones	**1,111**	1,111

Directors' report
for the year ended 31 December 2006 (continued)

Share options under an approved scheme over common shares of Euro 0 01 each

Director	Number of options at 1 January 2006 or date of appointment	During the year Granted	During the year Exercised	At 31 December 2006	Exercise price	Date from which exercisable	Expiry date
D Rich-Jones	6,570	-	(6,570)	-	207 0p	19/12/2005	19/12/2011
S Bouvier	5,000	-	-	5,000	207 0p	13/08/2006	13/08/2012
	10,679	-	-	10,679	383 0p	17/08/2007	17/08/2014
H Morris	22,055	-	-	22,055	136 0p	24/11/2006	24/11/2013

Share options under an unapproved scheme over common shares of Euro 0 01 each

Director	Number of options at 1 January 2006 or date of appointment	During the year Granted	During the year Exercised	At 31 December 2006	Exercise price	Date from which exercisable	Expiry date
D Rich-Jones	25,000	-	(25,000)	-	352 3p	01/06/2005	01/06/2011
	118,430	-	(118,430)	-	207 0p	19/12/2005	19/12/2011
	100,000	-	-	100,000	136 0p	24/11/2006	24/11/2013
	100,000	-	-	100,000	383 0p	24/11/2006	24/11/2013
	125,000	-	-	125,000	383 0p	12/07/2008	12/07/2015
P Rushton	13,497	-	(10,497)	3,000	207 0p	24/10/2005	24/10/2011
	15,000	-	-	15,000	207 0p	19/12/2005	19/12/2011
	20,000	-	-	20,000	136 0p	24/11/2006	24/11/2013
	20,000	-	-	20,000	383 0p	24/11/2006	24/11/2013
	25,000	-	-	25,000	383 0p	13/12/2007	13/12/2014
	25,000	-	-	25,000	383 0p	27/04/2008	27/04/2015
S Bouvier	4,321	-	-	4,321	383 0p	17/08/2007	17/08/2014
H Morris	27,945	-	-	27,945	136 0p	24/11/2006	24/11/2013
	50,000	-	-	50,000	383 0p	24/11/2006	24/11/2013
	150,000	-	-	150,000	383 0p	28/04/2007	28/04/2014
	150,000	-	-	150,000	383 0p	27/04/2008	27/04/2015

Directors' report for the year ended 31 December 2006 (continued)

Employment policies

The company 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 company 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 company through regular email communications and periodic briefings by senior management

Disabled persons

It is the policy of the company 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 company to continue employment and arrange appropriate retraining and offer opportunities for promotion

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/she has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws 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 profit or loss of the company for that period

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable 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 in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

XCHANGING HR SERVICES LIMITED
(Formerly Togethr HR Services Limited)

Directors' report
for the year ended 31 December 2006 (continued)

Directors' responsibilities statement (continued)

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

David Rich-Jones

David Rich-Jones
Director
20th March 2007

Independent auditors' report to the members of XCHANGING HR SERVICES LIMITED (Formerly Togethr HR Services Limited)

We have audited the financial statements of Xchanging HR Services Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing 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) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, 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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the 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 other transactions is not disclosed

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

Independent auditors' report to the members of XCHANGING HR SERVICES LIMITED (Formerly Togethr HR Services Limited) (continued)

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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

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

Opinion

In our opinion

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

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
20th March 2007

XCHANGING HR SERVICES LIMITED
(Formerly Togethr HR Services Limited)

Profit and loss account
for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
Turnover – continuing operations	2	**32,585**	29,075
Operating costs – continuing operations	3	**(31,487)**	(26,433)
Operating profit – continuing operations		**1,098**	2,642
Interest receivable and similar income	6	**124**	153
Profit on ordinary activities before taxation		**1,222**	2,795
Tax charge on profit on ordinary activities	7	**(388)**	(856)
Profit on ordinary activities after taxation	17	**834**	1,939

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 profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

XCHANGING HR SERVICES LIMITED
(Formerly Togethr HR Services Limited)

Balance sheet
as at 31 December 2006

	Notes	2006	2005
		£'000	£'000
Fixed assets			
Intangible assets	9	**253**	65
Tangible assets	10	**883**	830
		1,136	895
Current assets			
Debtors amounts falling due within one year	11	**6,179**	4,085
Debtors amounts falling due after more than one year	11	**257**	-
Cash at bank and in hand		**1,146**	5,082
		7,582	9,167
Creditors amounts falling due within one year	13	**(7,824)**	(8,123)
Net current (liabilities)/assets		**(242)**	1,044
Total assets less current liabilities		**894**	1,939
Provisions for liabilities and charges	14	**(60)**	-
Net assets		**834**	1,939
Capital and reserves			
Called up share capital	16	**-**	-
Profit and loss reserve	17	**834**	1,939
Equity shareholder's funds	18	**834**	1,939

The financial statements on pages 10 to 28 were approved by the board of directors on 20th March 2007and were signed on its behalf by

David Rich-Jones

David Rich-Jones
Director

Notes to the financial statements for the year ended 31 December 2006

1 Principal accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 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

Cash flow statement exemption

The company is a wholly owned subsidiary of HR Enterprise Limited and is included in the consolidated financial statements of that company, 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)

Going concern

The directors believe that preparing the accounts on the going concern basis is appropriate based on projections for the foreseeable future

Turnover

Turnover, which is stated exclusive of value added tax, comprises amounts receivable for services provided, net of guaranteed rebates to customers

Turnover from core contract HR Services revenue is recognised on a straight-line basis according to the month that the services relate to Other revenues are recognised once all obligations are fulfilled

Intangible fixed assets

Development costs are stated at cost less a provision for amortisation and any provision for impairment Research costs are expensed as incurred

Costs incurred during the development period of new contracts, including the costs of process and system designs that substantially improve those processes and systems already installed in the enterprise partnerships, are treated as development costs These costs are capitalised Costs that are capitalised comprise directly attributable incremental costs incurred during the development period, including wages and salaries of staff employed solely for the purpose of improving the processes and systems, and third party costs

Development costs do not include restructuring costs, (including redundancy, early termination penalties and such like), which are expensed to the income statement as they are incurred

Amortisation of development costs occurs on a straight line basis over the life of the contract to which they relate (between 6 and 12 years) This period represents the useful life of the intangible asset

Software costs are capitalised where they meet the criteria for recognition under IAS 38 Where the criteria for capitalisation are not met, software development expenditure is expensed as incurred

Software development costs are amortised on a straight line basis at an annual rate of 20% or over the life of the related contract, if longer, so as to write off the asset cost on a straight-line basis over the expected useful economic life

Subsequent expenditure undertaken to ensure that an asset maintains its previously assessed standard of performance, for example routine repairs and maintenance expenditure, is recognised
in the income statement as it is incurred Where subsequent expenditure significantly enhances an asset, this is capitalised

Contractual customer relationships are capitalised on acquisition where they meet the criteria for recognition under IFRS 3 and IAS 38 Amortisation of customer contractual relationships occurs in line with when future value is expected to be earned, which is between one and seven years

Tangible fixed assets

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

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%
Leasehold improvements	10%
Fixtures & fittings	25%

Notes to the financial statements for the year ended 31 December 2006 (continued)

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

Debtors

Debtors are recognised at fair value and subsequently measured at amortised cost less provision for impairment

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 capitalised are directly attributable to a contract 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, incurred after the date

These pre-contract costs are included within trade and other receivables and are amortised over the life of the contract, starting from the date when the contract commences

Cash

Cash includes cash in hand and demand deposits which are readily convertible to cash and are subject to minimal risk of changes in value Cash held in foreign currencies is recognised at the exchange rate ruling on the balance sheet date

Creditors

Creditors are stated at amortised cost

Operating leases

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

Provisions

Provisions are recognised when a present obligation exists as the result of a past event and it is probable that this will result in an outflow of economic benefit, the size of which can be reliably estimated Where the provision is long term, such as onerous contract provisions where the unavoidable costs of meeting obligations exceed any economic benefits expected to be received, the net cash flows are discounted using the an appropriate pre tax discount rate

Restructuring provisions are only recognised if an obligation exists at the balance sheet date i e a formal plan exists and those affected by that plan have a valid expectation that the restructuring will be carried out

Notes to the financial statements for the year ended 31 December 2006 (continued)

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

Pensions

The company participated in a number of multi-employer defined benefit schemes run for the employees of BAE Systems plc and certain employees of the company participate in those funded defined benefit schemes operated by BAE Systems plc

The terms on which the company participated in these schemes up to the end of 2006 were set in commercial agreements reached with BAE Systems during 2001 The terms of participation were renegotiated in 2006 and revised contribution rates were implemented in 2006

Under the terms of the new agreements, the contributions payable by the company represent the cost of accrual of future service benefits and the company's share of the deficit contributions made by BAE to the schemes only (not including any one off contributions made by BAE during 2006) The contributions are expressed as fixed percentages of pensionable payroll The company's contribution rates to the schemes are contractually fixed and will only be affected by changes to the cost of accrual of future service benefits, as determined at the triennial valuations of the schemes The company's contributions rates will not be affected by any future changes in the past service position of the schemes, relating to past service of its employees or other members of the scheme The company paid contributions in line with the agreements during the year to 31 December 2006

It is not possible to identify the company's share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis Accordingly, the company accounts for the contributions to the scheme as if they were defined contribution schemes under FRS 17

In addition, certain employees of the company participate in a defined contribution scheme operated by Xchanging UK Limited Contributions made to the scheme are charged to the profit and loss account in the year in which they arise

Related party transactions

The company has taken advantage of the exemption available in Financial Reporting Standard 8 not to disclose transactions with related parties that are more than 90% owned by the group All other related party transactions are disclosed in note 22

Notes to the financial statements for the year ended 31 December 2006 (continued)

2 Turnover

Turnover represents amounts receivable for the provision of services during the year, less a guaranteed rebate All services were provided in the United Kingdom

3 Operating costs

Operating costs comprise:	2006	2005
	£'000	£'000
Staff costs:		
Wages and salaries	13,582	12,476
Social security costs	1,402	1,194
Other pension costs	1,299	869
	16,283	14,539
Other operating costs	15,204	11,894
	31,487	26,433

Other operating charges include the following		
Depreciation – owned assets	469	523
Amortisation – development expenditure	15	3
Foreign exchange gain	(1)	-
Auditors' remuneration – audit services	45	50
Auditors' remuneration – non-audit services	-	11
Rental costs relating to operating leases – Land & Buildings	423	349

Notes to the financial statements for the year ended 31 December 2006 (continued)

4 Directors' emoluments

	2006	2005
	£'000	£'000
Directors' emoluments		
Aggregate emoluments	**534**	481
Compensation for loss of office	**74**	-
Pension costs	**16**	-
	624	481

	2006	2005
Number of directors with retirement benefits accruing under:		
Defined contribution schemes	**4**	4

During the year 2 directors exercised options over Euro 0 01 shares of Xchanging B V (2005 none)

Highest paid director

	2006	2005
	£'000	£'000
Emoluments of the highest paid director	**207**	307
	207	307

5 Employees

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

	2006	2005
	Number	Number
By activity		
Service delivery	**483**	454
Selling and distribution	**5**	6
Administration	**28**	25
	516	485

Notes to the financial statements for the year ended 31 December 2006 (continued)

6 Interest receivable and similar income

	2006 £'000	2005 £'000
Bank interest	124	151
Other interest	-	2
	124	153

7 Tax charge on profit on ordinary activities

	2006 £'000	2005 £'000
Current tax		
UK corporation tax on profits of the year	383	877
Adjustments in respect of prior years	4	(17)
Total current tax	387	860
Deferred tax		
Depreciation in excess of capital allowances	(4)	(20)
Other timing differences	-	16
Adjustments in respect of prior years	5	-
Total deferred tax	1	(4)
Total tax charge for the current year	388	856

Notes to the financial statements for the year ended 31 December 2006 (continued)

7 Tax charge on profit on ordinary activities (continued)

The current tax assessed for the period is higher (2005 higher) than the standard rate of corporation tax in the UK (30%) The differences are explained below

	2006	2005
	£'000	£'000
Profit on ordinary activities before tax	1,222	2,795
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2005 30%)	367	839
Expenses not deductible for tax purposes	12	34
Depreciation for the year in excess of capital allowances	4	20
Other short term timing differences	-	(16)
Adjustment to tax charge in respect of previous period	4	(17)
	387	860

8 Equity dividend paid

	2006	2005
	£'000	£'000
Ordinary shares £1,939,000 per share (2005 £2,044,000 per share)	1,939	2,044
	1,939	2,044

The Directors recommend a dividend payment of £834,000 The dividend was approved at a meeting of the Board held on 20th March 2007 (2005 £1,939,000)

Notes to the financial statements for the year ended 31 December 2006 (continued)

9 Intangible fixed assets

	Development expenditure £'000	Total £'000
Cost		
At 1 January 2006	68	68
Additions	203	203
At 31 December 2006	**271**	**271**
Amortisation		
At 1 January 2006	3	3
Charge for the year	15	15
At 31 December 2006	**18**	**18**
Net book value		
At 31 December 2006	**253**	**253**
At 31 December 2005	65	65

10 Tangible fixed assets

	Computer equipment £'000	Leasehold improvements £'000	Fixtures & fittings £'000	Total £'000
Cost				
At 1 January 2006	2,324	296	515	3,135
Additions	226	8	288	522
At 31 December 2006	**2,550**	**304**	**803**	**3,657**
Depreciation				
At 1 January 2006	1,807	91	407	2,305
Charge for the year	314	29	126	469
At 31 December 2006	**2,121**	**120**	**533**	**2,774**
Net book value				
At 31 December 2006	**429**	**184**	**270**	**883**
At 31 December 2005	517	205	108	830

Notes to the financial statements for the year ended 31 December 2006 (continued)

11 Debtors

	2006 £'000	2005 £'000
Amounts falling due within one year:		
Trade debtors	4,035	2,256
Amounts owed by group undertakings	926	576
Other debtors	1	214
Prepayments and accrued income	979	868
Deferred taxation (note 15)	170	171
Pre-contract costs (note 12)	68	
	6,179	4,085
Amounts falling due after more than one year.		
Pre-contract costs (note 12)	257	-
	257	-

Amounts owed by group undertakings are interest free and are repayable on demand

12 Pre-contract costs

	2006 £'000	2005 £'000
Net book value at 1 January 2006	-	-
Pre-contract costs deferred in the year	325	-
	325	-
Amortisation charge for the year	-	-
Net book value at 31 December 2006	325	-

Notes to the financial statements for the year ended 31 December 2006 (continued)

13 Creditors: amounts falling due within one year

	2006	2005
	£'000	£'000
Trade creditors	828	931
Amounts owed to group undertakings	4,030	3,276
Consortium relief payable	486	486
Corporation tax	155	288
Taxation and social security	802	1,151
Other creditors	313	128
Accruals and deferred income	1,210	1,863
	7,824	8,123

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand

14 Provisions for liabilities and charges

	Restructuring provision	Total
	£'000	£'000
At 1 January 2006	-	-
Charged to profit and loss account	60	60
Utilised in the year	-	-
At 31 December 2006	60	60

The restructuring provision relates to management redundancies as a result of strategic realignment of various aspects of the business in order to increase productivity and reduce costs

Notes to the financial statements for the year ended 31 December 2006 (continued)

15 Deferred tax

	2006	2005
	£'000	£'000
Provided		
Deferred tax asset at beginning of year	**171**	167
Charged/(credited) to the profit and loss account during the year		
- Accelerated capital allowances	**(1)**	20
- Other timing differences	**-**	(16)
Deferred tax asset at end of year	**170**	171

Provision for deferred tax comprises		
Accelerated capital allowances	**170**	171

16 Called up share capital

	2006	2005
	£	£
Authorised		
100 ordinary shares of £1 each	**100**	100
	100	100
Allotted, called up and fully paid		
1 ordinary share of £1 each	**1**	1
	1	1

Notes to the financial statements for the year ended 31 December 2006 (continued)

17 Reserves

	Profit and loss reserve £'000
At 1 January 2006	1,939
Profit for the financial year	834
Dividend paid	(1,105)
At 31 December 2006	**834**

18 Reconciliation of movements in equity shareholder's funds

	2006 £'000	2005 £'000
Opening equity shareholder's funds	**1,939**	2,044
Profit for the financial year	**834**	1,939
Dividend paid	**(1,939)**	(2,044)
Closing equity shareholder's funds	**834**	1,939

19 Pensions

The company participates in a number of defined benefit schemes run for the employees of BAE Systems plc and associated companies As these are multi-employer schemes, the company accounts for its contributions to the schemes as if they were defined contribution schemes under FRS 17 It is not possible to identify the company's share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis

The company's contribution rates to the schemes are contractually fixed Pension costs for the company that were charged against the result for the year were £1,150,000 (2005 £770,000)

The company also participates in a defined contribution scheme run for the employees of Xchanging Limited and related companies There were no outstanding or prepaid contributions at the balance sheet date Pension costs for the company that were charged against the result for the year were £149,000 (2005 £100,000)

Notes to the financial statements for the year ended 31 December 2006 (continued)

20 Subsequent Events

On 16th January 2007 the 50% of the company owned by BAE was acquired was acquired by the company's immediate parent company, HR Holdco Ltd The company is now owned 100% by that company

21 Parent undertaking and ultimate controlling party

As at 31 December 2006 the company was a wholly owned subsidiary of HR Enterprise Limited, a company incorporated in the United Kingdom

The directors consider Xchanging BV, a company incorporated in the Netherlands, to be the ultimate parent undertaking and ultimate controlling party and the parent of the largest group to consolidate these financial statements Copies of the consolidated accounts of Xchanging BV may be obtained from Xchanging BV, 34 Leadenhall Street, London, EC3A 1AX

Xchanging BV is controlled jointly by General Atlantic Partners LLP and the Chief Executive Office, David Andrews, the founding partners General Atlantic Partners LLP is the majority shareholder through a number of its group companies' shareholdings in Xchanging BV, which act in concert within the context of a group David Andrews is able to appoint the majority of the Board of Xchanging BV

Notes to the financial statements for the year ended 31 December 2006 (continued)

22 Related party transactions

The companies set out below are considered to be related parties of the company The first, BAE Systems plc has a 50% holding in the group

The remaining companies are related parties because they all share the same ultimate controlling party, Xchanging BV

The individual companies together with a description of the nature of the services provided by/(to) the company and the amount receivable/(payable) in respect of each at 31 December 2006, are set out in the table below

Related Party	Services provided by/(to) the company	Revenue/(charge) 2006	2005	Receivable/(payable) 2006	2005
		£'000	£'000	**£'000**	£'000
BAE Systems plc	- HR & Payroll	**28,434**	25,141	**3,616**	2,116
	- (Accommodation)	**(1,259)**	(897)	**(154)**	(274)
Xchanging UK Limited	- HR Services	**113**	89	**133**	145
	- Secondees, accommodation and other recharges	**400**	425		
	- (Secondees and other recharges)	**(2,559)**	(2,265)	**(2,295)**	(2,486)
	- (Royalties)	**(1,629)**	(1,454)		
	- Loan		-	-	-
Xchanging Procurement Services Limited	- (Procurement services)	**(170)**	(260)	**182**	4
	- (Secondees and other recharges)	**(476)**	(150)		
	- Accommodation costs	**176**	177		
	- Human resources	**185**	140		
	- Secondees and other recharges	**648**	128		

Notes to the financial statements for the year ended 31 December 2006 (continued)

22 Related party transactions (continued)

Related Party	Services provided by/(to) the company	Revenue/(charge) 2006 £'000	Revenue/(charge) 2005 £'000	Receivable/(payable) 2006 £'000	Receivable/(payable) 2005 £'000
Xchanging Ins-sure Services Group	- HR Services	**334**	257	**134**	14
	- (Sundry charges)	**-**	-		
Xchanging Claims Services Group	- HR Services	**104**	77	**13**	-
	- (Sundry charges)	**(1)**	(22)		
Xchanging Global Insurance Solutions Limited	- HR Services	**123**	86	**157**	52
	- Accommodation and other charges	**79**	17		
	- (IT, hosting and other charges)	**(2,182)**	(925)	**(867)**	(127)
Xchanging Insurance Professional Services	- HR Services	**34**	24	**12**	-
Xchanging Broking Services	- HR Services	**45**	-	**45**	-
Xchanging GmbH (Germany)	- (Sundry charges)	**(122)**	-	**(122)**	
Xchanging Resourcing Services Limited	- HR Services	**3**	-	**(295)**	(102)
	- Sundry charges	**8**	1		
	- (Recruitment services and other recharges)	**(696)**	(334)		

Notes to the financial statements for the year ended 31 December 2006 (continued)

23 Operating lease commitments

	Property 2006 £'000	Other 2006 £'000	Property 2005 £'000	Other 2005 £'000
Annual commitments under non-cancellable operating leases expiring				
Within one year	-	7	-	15
Between two to five years	-	18	-	20
More than five years	402	-	402	-
	402	25	402	35