

Registered number
4372726

KCS CONNECT LIMITED

DIRECTORS' REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004



KCS CONNECT LIMITED

COMPANY INFORMATION

Directors

A Snell
Ms C M Rogers
Ms P W Watson

Secretary

A Snell

Auditors

Spofforths
20 Old Mill Square
Storrington
West Sussex
RH20 4NQ

Registered office

20 Old Mill Square
Storrington
West Sussex
RH20 4NQ

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KCS CONNECT LIMITED

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Management profit and loss account	13 to 14
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KCS CONNECT LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2004

The directors present their report and accounts for the year ended 31 March 2004.

Principal activities

The company's principal activity during the year continued to be that of the provision of payroll services

Review of the business and future development

The directors are pleased to announce a second very successful financial year since the acquisition, with results showing a 73% increase in revenues through organic growth. Additionally, effective control on overheads gave rise to a 477% growth in operating profit in the twelve-month period.

The migration of the operational process to KCS Management Systems Plc's integrated HR & Payroll suite (k-Em) continues to provide exceptional opportunities to offer additional services to our clients. KCS Connect Limited has now re-positioned itself from traditional paper based payroll bureau to a Managed Service Operation providing electronic communication and valuable management services.

The market for the traditional Managed Service Payroll remains buoyant as organisations, faced with the current difficult economic climate, focus on their core business activities and outsource the non-mission critical facilities.

With a wealth of opportunities in the managed payroll market, exiting new opportunities in the outsource HR services market, and cross-selling opportunities within the KCS group, the directors are confident that the business will continue to enjoy substantial year on year revenue and profit growth.

Results and dividends

The profit for the period, after taxation, amounted to £53,797 (2003: £6,310). The directors do not recommend payment of a dividend.

Directors

The directors who served during the year and their interests in the share capital of the parent company were as follows:

	£1 Ordinary shares	
	31 March 2004	1 April 2003
A Snell	64,688	64,688
Ms C M Rogers	45,000	45,000
Ms P W Watson	7,000	7,000

The directors had no interest in the share capital of this company.

Directors' responsibilities

Company law requires the directors to prepare accounts for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for maintaining 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 accounts 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.

KCS CONNECT LIMITED

DIRECTORS' REPORT

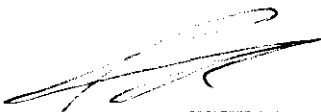
FOR THE YEAR ENDED 31 MARCH 2004

Auditors

A resolution to reappoint Spofforths as auditors will be put to the member at the Annual General Meeting.

This report was approved by the board on

27/10/04



A Snell
Secretary

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF

KCS CONNECT LIMITED

We have audited the accounts of KCS Connect Limited for the year ended 31 March 2004 on pages 4 to 12.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the accounts in accordance with applicable law and United Kingdom Accounting Standards.

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

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 March 2004 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Spofforths
Chartered Accountants and Registered Auditors
20 Old Mill Square
Storrington
West Sussex
RH20 4NQ

Date: 27/10/04

KCS CONNECT LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 MARCH 2004**

	Notes	2004 £	2003 £
Turnover		300,600	173,632
Cost of sales		(8,850)	(9,190)
Gross profit		291,750	164,442
Administrative expenses		(227,926)	(153,375)
Operating profit	2	63,824	11,067
Interest receivable		380	64
Profit on ordinary activities before taxation		64,204	11,131
Tax on profit on ordinary activities	5	(10,407)	(4,821)
Profit for the financial year		53,797	6,310
Retained profit for the financial year	11	53,797	6,310

Statement of total recognised gains and losses

The company has no recognised gains or losses other than the profit for the above two financial years.

KCS CONNECT LIMITED

BALANCE SHEET

AS AT 31 MARCH 2004

	Notes	£	2004 £	£	2003 £
Fixed assets					
Intangible assets	6		32,416		43,216
Tangible assets	7		24,295		23,941
			56,711		67,157
Current assets					
Debtors	8	60,611		38,537	
Cash at bank and in hand		15,419		19,277	
		76,030		57,814	
Creditors: amounts falling due within one year	9	(72,633)		(118,660)	
Net current assets/(liabilities)			3,397		(60,846)
			60,108		6,311
Capital and reserves					
Called up share capital	10		1		1
Profit and loss account	11		60,107		6,310
Shareholder's funds:					
Equity			60,108		6,311
	12		60,108		6,311

A Snell

Director

Approved by the board on

27th October 2004

KCS CONNECT LIMITED

CASH FLOW STATEMENT

AS AT 31 MARCH 2004

	Notes	2004 £	2003 £
Reconciliation of operating profit to net cash inflow from operating activities			
Operating profit		63,824	11,067
Depreciation charges		14,924	12,505
Amortisation of goodwill		10,800	10,804
(Increase) in debtors		(22,074)	(38,537)
(Decrease)/increase in creditors		(51,614)	113,839
Net cash inflow from operating activities		15,860	109,678
CASH FLOW STATEMENT			
Net cash inflow from operating activities		15,860	109,678
Returns on investments and servicing of finance	13	380	64
Taxation		(4,820)	-
Capital expenditure	13	(15,278)	(90,466)
		(3,858)	19,276
Financing	13	-	1
(Decrease)/increase in cash		(3,858)	19,277
Reconciliation of net cash flow to movement in net debt			
(Decrease)/increase in cash		(3,858)	19,277
Change in net debt	14	(3,858)	19,277
Net funds at beginning of period		19,277	-
Net funds at end of period		15,419	19,277

KCS CONNECT LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

1 Accounting policies

Basis of accounting

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

Turnover

Turnover represents the invoiced value of goods and services supplied by the company, net of VAT.

Amortisation

The intangible fixed asset represents the capitalised acquisition costs of the business, recognised under the historical cost convention and amortised on a straight line basis over its expected useful life of five years.

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Computer equipment	over 2 to 5 years
Furniture and fittings	over 10 years
Office equipment	over 5 to 10 years

Deferred taxation

Deferred tax arises as a result of including items of income and expenditure in taxation computations in periods different from those in which they are included in the company's accounts. Deferred tax is provided in full on timing differences which result in an obligation to pay more (or less) tax at a future date, at the average tax rates that are expected to apply when the timing differences reverse, based on current tax rates and laws.

Leasing and hire purchase commitments

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

Pensions

Contributions in respect of the company's defined contribution pension scheme are charged to the profit and loss account for the year in which they are payable to the scheme. Differences between contributions payable and contributions actually paid in the year are shown as either accruals or prepayments at the year end.

2 Operating profit

	2004	2003
	£	£
This is stated after charging:		
Depreciation of owned fixed assets	14,924	12,505
Amortisation of goodwill	10,800	10,804
Operating lease rentals - land and buildings	9,600	8,000
Auditors' remuneration	3,000	2,500

KCS CONNECT LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

3 Directors' emoluments

No emoluments of any kind are paid to the Directors of KCS Connect Limited by the company.

4 Staff costs

	2004	2003
	£	£
Wages and salaries	124,700	81,764
Social security costs	12,462	6,607
Other pension costs	2,998	2,051
	<u>140,160</u>	<u>90,422</u>

5 Taxation

Analysis of charge in year	2004	2003
£	£	£
Current tax:		
UK corporation tax on profits of the year	12,460	4,821
Adjustments in respect of previous years	(2,053)	-
UK corporation tax on profits of the period	<u>10,407</u>	<u>4,821</u>
Total current tax (see below)	<u>10,407</u>	<u>4,821</u>
Tax on profit on ordinary activities	<u>10,407</u>	<u>4,821</u>

Factors affecting tax charge for year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK (19 percent). The differences are explained below:

	2004	2003
	£	£
Profit on ordinary activities before tax	<u>64,204</u>	<u>11,131</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	12,199	2,115
Effects of:		
Expenses not deductible for tax purposes	-	260
Accrued pension contributions	(177)	-
Capital allowances for year in excess of depreciation	438	2,446
Adjustments in respect of previous years	(2,053)	-
Current tax charge for year as above	<u>10,407</u>	<u>4,821</u>

KCS CONNECT LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

6 Intangible fixed assets

Goodwill

Cost

At beginning of year

54,020

At end of year

54,020

Amortisation

At beginning of year

10,804

Provided during the year

10,800

At end of year

21,604

Net book value

At 31 March 2004

32,416

At 31 March 2003

43,216

7 Tangible fixed assets

	Furniture and fittings £	Office equipment £	Computer equipment £	Total £
Cost				
At beginning of year	659	5,160	30,627	36,446
Additions	400	8,575	6,303	15,278
At end of year	1,059	13,735	36,930	51,724
Depreciation				
At beginning of year	33	430	12,042	12,505
Charge for the year	103	1,540	13,281	14,924
At end of year	136	1,970	25,323	27,429
Net book value				
At 31 March 2004	923	11,765	11,607	24,295
At 31 March 2003	626	4,730	18,585	23,941

8 Debtors

	2004 £	2003 £
Trade debtors	57,746	33,887
Prepayments and accrued income	2,865	4,650
	60,611	38,537

KCS CONNECT LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

9 Creditors: amounts falling due within one year			2004	2003
			£	£
Trade creditors			3,851	6,463
Amounts owed to group undertakings			38,167	85,708
Corporation tax			10,408	4,821
Other taxes and social security costs			16,835	9,869
Other creditors			-	8,147
Accruals and deferred income			3,372	3,652
			<u>72,633</u>	<u>118,660</u>
10 Share capital			2004	2003
			£	£
Authorised:				
Ordinary shares of £1 each			<u>1,000</u>	<u>1,000</u>
	2004	2003	2004	2003
	No	No	£	£
Allotted, called up and fully paid:				
Ordinary shares of £1 each	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
11 Profit and loss account			2004	2003
			£	£
At beginning of year			6,310	-
Retained profit			53,797	6,310
At end of year			<u>60,107</u>	<u>6,310</u>
12 Reconciliation of movement in shareholder's funds			2004	2003
			£	£
Profit for the financial year			53,797	6,310
Shares issued			-	1
Net movement in shareholders' funds			53,797	6,311
At beginning of year			6,311	-
At end of year			<u>60,108</u>	<u>6,311</u>

KCS CONNECT LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

13 Gross cash flows	2004	2003
	£	£
Returns on investments and servicing of finance		
Interest received	<u>380</u>	<u>64</u>
Capital expenditure		
Payments to acquire intangible fixed assets	-	(54,020)
Payments to acquire tangible fixed assets	<u>(15,278)</u>	<u>(36,446)</u>
	<u>(15,278)</u>	<u>(90,466)</u>
Financing		
Issue of share capital	<u>-</u>	<u>1</u>

14 Analysis of changes in net debt	At beginning of year	Cash flows	Non-cash changes	At end of year
	£	£	£	£
Cash at bank and in hand	19,277	(3,858)	-	15,419
Total	<u>19,277</u>	<u>(3,858)</u>	<u>-</u>	<u>15,419</u>

15 Pension commitments

The company operates a defined contribution pension scheme for the benefits of the employees. The assets of the scheme are administered by trustees in a fund independent from those of the company.

The total contribution paid in the year amounted to £2,998 (2003: £2,051).

16 Other financial commitments

At the period end the company had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings	<i>Land and buildings</i>
	2004	<i>2003</i>
	£	<i>£</i>
Operating leases which expire: in over five years	<u>9,600</u>	<u>9,600</u>

KCS CONNECT LIMITED

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2004

17 Related parties

The company's ultimate parent undertaking is KCS Global Plc. Exemption has been taken under FRS8 to disclose intra-group transactions as consolidated accounts of KCS Global plc, KCS Connect Limited's 100% parent, are publicly available.