


11590120

Xpert Group Limited

Report and Financial Statements

30 April 2004

 **ERNST & YOUNG**



A22
COMPANIES HOUSE

AQ00AN131

0494
15/12/04

Registered No: 4590730

Directors

G R Berry	(appointed 19 February 2003)
D M Cox (Chairman)	(appointed 19 February 2003)
M A Balaam	(appointed 31 January 2003)
G D Barton	(appointed 19 February 2003)
R J Cross	(appointed 31 January 2003)
Heaton Directors Limited	(appointed 14 November 2002 and resigned 31 December 2003)
M Ramzan	(appointed 24 June 2004)

Secretary

M A Balaam

Auditors

Ernst & Young LLP
100 Barbirolli Square
Manchester
M2 3EY

Bankers

Barclays Bank plc
PO Box 228
51 Mosley Street
Manchester
M60 3DQ

Solicitors

Heatons
7th Floor
Phoenix House
1-3 Newhall Street
Birmingham
B3 3NH

Registered Office

910 Birchwood Boulevard
Birchwood
Warrington
Cheshire
WA3 7QN

Directors' report

The directors present their first report and accounts for the group for the period from incorporation on 14 November 2002 to 30 April 2004. The company changed its name from HS142 Limited to Xpert Group Limited on 6 March 2003.

Results and dividends

On 31 January 2003, the company acquired the entire issued ordinary share capital of Xpert Communications Limited. The results of the Group for the period are set out on page 7. The directors do not recommend the payment of a dividend. Appropriations for unpaid dividends for the period totalled £4,000. The retained loss for the period of £5,001,000 was transferred to reserves.

Principal activities

Xpert Group Limited is comprised of the following operating subsidiaries:

Xpert Systems (Ireland) Ltd (Xpert Ireland) – a provider of specialised enterprise computer systems and storage area networks along with a range of related computer systems integration, network design and installation, maintenance, designs and cabling and wiring sub-systems. Xpert Ireland focuses on the Public Sector and Financial Services markets and trades under the name of Xpert Technology.

Xpert Systems Ltd (UK) (Xpert), **Castleton Communications Ltd** (Castleton) - suppliers of a range of computer services including distribution, systems integration, network design and installation, maintenance and design and installation of cabling and wiring sub systems. Since the acquisition by Xpert Communications Limited, Castleton has traded under the name of Xpert and on 1 May 2003 it hived up all of its trade and assets to Xpert. Xpert focuses on the Local Government, Health, Education and Financial Services markets.

Caltell Communications Ltd – a distributor of a range of IT and telecommunications products and provider of the supporting design, installation and training services as well as ongoing support and maintenance of those products to resellers.

Genesis Telecommunications Ltd (Genesis) – suppliers of a range of telecommunications services including distribution, systems integration, network design and installation, maintenance and design of systems. Genesis was acquired by the Group on 22 July 2003 and therefore only its results from this date have been consolidated.

Review of business developments

Following a Secondary MBO the entire share capital of Xpert Communications Limited was acquired by the company on the 31 January 2003. After identifying the strategic requirement for Enterprise Voice skills in the UK on the 22 July 2003 the entire share capital of Genesis Telecommunications Limited was acquired.

The Directors were encouraged that the results for the year demonstrated that the business could achieve a modest return in a difficult market whilst at the same time under taking a significant acquisition.

Future developments and post balance sheet events

The directors are committed to an aggressive growth strategy and will concentrate in the short term on delivering the benefits of the combined capabilities in the UK of Xpert Systems Limited and Genesis Telecommunications Limited through cross selling opportunities and continuous efficiency gains in support functions.

The directors were encourage to see that spend on ICT in the public sector had seen significant growth in the period and was projected to continue especially in the Health and Education sectors. Xpert is well placed to capitalise on this growth.

The directors will continue to focus the Group on its chosen market sectors and products and seek to acquire organisations that are a strategic fit that add value to the Group by strengthening the existing product portfolio and market sectors.

Directors' report (continued)

Directors and their interests

The directors of the company during the period were those listed on page 1.

According to the register maintained, as required under Section 324 of the Companies Act 1985, the directors' interests in the shares of the company were as follows:

	2004 <i>C Ordinary</i> <i>shares of £1</i> <i>each</i> <i>No.</i>	2004 <i>D Ordinary</i> <i>shares of £1</i> <i>each</i> <i>No.</i>
G R Berry	-	-
D M Cox	5,224	-
M A Balaam	29,390	-
G D Barton	15,239	-
R J Cross	55,514	-
M Ramzan	-	2,612

In addition, G R Berry is a director of Lloyds TSB Development Capital Limited which owns 404,360 A ordinary shares of 10p each, 460,875 E ordinary shares of £1 each, 262,000 deferred shares of £1 each and 7,522,974 preference shares of £1 each. These are owned either directly by Lloyds TSB Development Capital Limited or indirectly through Lloyds TSB Venture Nominees Limited.

None of the directors had interests in any share options at the 30 April 2004.

Employee involvement

The company remains committed to providing the conditions best suited to encourage the personal involvement of all employees in the future development of the business. This involves open and regular communication with all employees, the provision of training and development opportunities.

Auditors

Ernst & Young LLP were appointed during the period and a resolution proposing their re-appointment as auditors will be put to the members at the Annual General Meeting.

By order of the board



M A Balaam
Secretary

Date 25 NOVEMBER 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report

to the members of Xpert Group Limited (formerly HS142 Limited)

We have audited the company's financial statements for the year ended 30 April 2004 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Group Balance Sheet, Company Balance Sheet, Consolidated Statement of Cash Flows, and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an 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 financial statements in accordance with applicable United Kingdom law and accounting standards.

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

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 if, in our opinion, the Directors' Report is not consistent with the financial statements, 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 financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

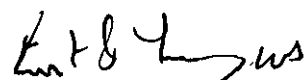
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

Independent auditors' report

to the members of Xpert Group Limited (formerly HS142 Limited) (continued)

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 30 April 2004 and of the loss of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Manchester

25/11/04 .

Group profit and loss account

For the period from incorporation to 30 April 2004

	Notes	14 November 2002 to 30 April 2004 £000
Turnover	2	34,080
Cost of sales		(27,557)
Gross profit		6,523
Administrative expenses		9,225
Operating profit before exchange differences, amortisation of goodwill and exceptional items		1,325
Profit on exchange movement		41
Amortisation of goodwill		(2,530)
Exceptional items	4	(1,538)
Operating loss	3	(2,702)
Interest payable and similar charges	7	2,266
Loss on ordinary activities before taxation		(4,968)
Tax on loss on ordinary activities	8	(29)
Loss for the financial period	20	(4,997)
Appropriation for unpaid dividends on equity shares	20, 9	(4)
Loss for the financial period		(5,001)

Group statement of total recognised gains and losses

For the period from incorporation to 30 April 2004

	2004 £000
Loss for the financial period	(4,997)
Exchange difference on retranslation of net assets of net assets of subsidiary undertakings	113
Total recognised gains and losses relating to the period	(4,884)

Group balance sheet

At 30 April 2004

	Notes	2004 £000
Fixed assets		
Intangible assets	11	19,588
Tangible assets	12	708
		<hr/> 20,296
Current assets		
Stocks	14	575
Debtors	15	5,885
Cash at bank and in hand		1,537
		<hr/> 7,997
Creditors: amounts falling due within one year	16	(9,579)
		<hr/> (1,582)
Net current liabilities		
		<hr/> 18,714
Total assets less current liabilities		
Creditors: amounts falling due after more than one year	17	(10,220)
		<hr/> 8,494
		<hr/>
Capital and reserves		
Called-up share capital	19	8,382
Share premium account	20	5,000
Profit and loss account	20	(4,888)
		<hr/>
Shareholders' funds		
Equity		(4,787)
Non-equity		13,281
		<div style="border: 1px solid black; padding: 2px;">13,281</div>
		<hr/> 8,494
		<hr/>

Approved by the Board of Directors on

M Ramzan

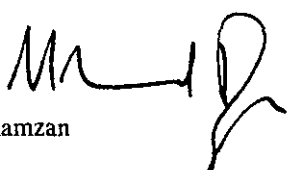
25 NOVEMBER 2004

Company balance sheet

At 30 April 2004

	Notes	2004 £000
Fixed assets		
Investments	13	14,250
Current assets		
Debtors	15	5
Cash at bank and in hand		-
		5
Creditors: amounts falling due within one year	16	(296)
Net current liabilities		(291)
Total assets less current liabilities		13,959
Creditors: amounts falling due after more than one year	17	(1,900)
		12,059
Capital and reserves		
Called-up share capital	19	8,382
Share premium account	20	5,000
Profit and loss account	20	(1,323)
Shareholders' funds		
Equity		(1,222)
Non-equity		13,281
		12,059

Approved by the Board of Directors on


 M Ramzan
 25 NOVEMBER 2004

Consolidated statement of cash flows

For the period from incorporation to 30 April 2004

	Notes	2004 £000
Net cash outflow from operating activities	22a)	(2,802)
Returns on investments and servicing of finance		
Interest paid – bank loans and overdrafts		(2,048)
Issue costs on refinancing instruments		(210)
Interest element of finance lease rental payments		(8)
Net cash outflow from returns on investments and servicing of finance		(2,266)
Taxation		
Taxation		19
Capital expenditure and financial investment		
Payments to acquire tangible fixed assets		(560)
Acquisitions and disposals		
Purchase of subsidiary undertakings		(147)
Net cash acquired with subsidiary undertakings		1,572
		1,425
Net cash outflow before financing		(4,184)
Financing		
Issue of share capital		12,880
Net movement on long-term bank loans		(7,153)
Capital repayment of finance leases		(6)
Net cash inflow from financing		5,721
Increase in cash	22b)	1,537
Reconciliation of net cash flow to movement in net funds		
		£
Increase in cash		1,537
Change in net funds resulting from cash flows:		
Cash outflow from decrease in debt and lease financing		7,159
Loans and finance lease acquired with subsidiaries		(18,074)
Net debt at 30 April		(9,378)

Notes to the accounts

As at 30 April 2004

1. Accounting policies

Basis of preparation

The accounts have been prepared under the historical cost convention and in accordance with applicable accounting standards as defined in Companies Act 1985.

Basis of consolidation

Xpert Group Limited was incorporated on 14 November 2002.

The group accounts consolidate the accounts of Xpert Group Limited and its subsidiary undertakings, which were acquired on 31 January 2003. On 22 July 2003 the company acquired all of the issued share capital of Genesis Telecommunications Limited. The results of this company have been consolidated since this date in accordance with applicable accounting standards.

The accounting dates of all the companies in the group are coterminous, and results for the period ended on the accounting date are included in the group results in full, except where subsidiaries are acquired during the period when results are included from the date of acquisition.

Goodwill

Goodwill is the difference between the cost of acquired entity and the aggregate of the fair value of that entity's assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets

Fixed assets are shown at cost less accumulated depreciation.

Depreciation is calculated in order to write off the cost of tangible fixed assets, other than land and buildings, over their estimated useful lives by equal annual instalments.

Tangible assets are depreciated at the following annual rates:

Computer equipment	-	20%-33% straight line on cost
Leasehold improvements	-	12.5% straight line on cost
Motor vehicles	-	20% straight line on cost
Fixtures and fittings	-	20% straight line on cost

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

Turnover

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover is generated from one continuing activity, the selling, installation and maintenance of data networks and other computer services.

Maintenance revenue

Turnover recognised on maintenance contracts represents an attributable proportion of the amounts invoiced such that income is recognised evenly over the period covered by the maintenance contract.

Network installation revenue

Turnover related to the hardware element of the network installation is recognised in the month of delivery to and acceptance by the customer. Turnover related to the installation element of the network installation is recognised in the month of performance.

Notes to the accounts

As at 30 April 2004

1. Accounting policies (continued)

Cabling Installation Revenue

Turnover related to the material and installation elements of the cabling installation is recognised as performance is rendered.

Profit Recognition on Contracting Activities

Profit on individual contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs as contract activity progresses. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

Goods for resale	-	purchase cost on a first-in, first-out basis
Work in progress	-	cost of direct materials and labour

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Maintenance stock

Maintenance parts are charged to the profit and loss account as they are purchased.

Subcontracted maintenance costs are spread on a straight line basis over the life of the subcontract or the maintenance contract, whichever is the shorter period.

Cisco Reseller Support Agreements fees are written off to the profit and loss account on a straight line basis over 36 months from the month of acquisition of the related Cisco equipment.

Foreign currencies

Group

The financial statements of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. The exchange difference arising on the retranslation of opening net assets is taken directly to reserves. All other translation differences are taken to the profit and loss account with the exception of differences on foreign currency borrowings to the extent that they are used to finance or provide a hedge against group equity investments in foreign enterprises, which are taken directly to reserves together with the exchange difference on the net investment in these enterprises. Tax charges and credits attributable to exchange differences on those borrowings are also dealt with in reserves.

Company

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date, revenues, costs and non monetary assets are recorded at the exchange rates ruling at the date of the transactions, except where a transaction is covered by a forward exchange contract, then the contracted exchange rate is used. All differences are taken to the profit and loss account.

Notes to the accounts

As at 30 April 2004

1. Accounting policies (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term.

Pensions

The pension costs charged against profits represent contributions payable to money purchase schemes on behalf of certain directors and employees in respect of the accounting period.

Taxation

Corporation tax payable is provided on taxable profits at the appropriate rate.

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

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets charged to tax only where the replacement assets are sold;
- Provision is made for deferred tax that would arise on remittance of the retained earnings of overseas subsidiaries, associates and joint ventures only to the extent that, at the balance sheet date, dividends have been accrued as receivable; and
- Deferred tax assets are recognised only to the extent that 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 an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the accounts

As at 30 April 2004

2. Turnover

Turnover comprises the invoice value, exclusive of VAT, represents amounts invoiced to third parties and is attributable to one continuing activity.

An analysis of turnover by geographical area is given below:

	2004 £'000
United Kingdom	27,324
Rest of Europe	6,756
	<hr/> 34,080 <hr/>

3. Operating loss

This is stated after charging:

	2004 £'000
Depreciation and amortisation	
- owned assets	413
- assets held under finance leases and hire purchase contracts	13
Amortisation of goodwill	2,530
Operating lease rentals	
- land and buildings	858
- plant and machinery	566
Auditors' remuneration	
- audit services	55
- non-audit services	10
	<hr/> <hr/>

4. Exceptional items

During the year restructuring costs of £1,538,342 were incurred. The costs related to redundancy costs, legal fees and restructuring. All of these costs were paid out during the year.

5. Staff costs

	2004 £'000
Wages and salaries	11,378
Social security costs	1,242
Other pension costs	402
	<hr/> 13,022 <hr/>

The average number of employees during the period is analysed as follows:

	2004 No.
Sales and marketing	55
Administration	35
Technical	136
	<hr/> 226 <hr/>

Notes to the accounts

As at 30 April 2004

6. Directors' emoluments

	2004 £'000
Emoluments	534
Pension	10
Compensation for loss of office	166
	<u>710</u>
Members of defined contribution schemes	2
	<u>£'000</u>

The amounts in respect of the highest paid director are as follows: 210

Company contributions paid to defined contribution schemes -

Fees of £20,000 and £32,000, including expenses, for G Berry as Non Executive Director, D Cox as Non-Executive Chairman are paid to Lloyds TSB Development Capital Limited, and DMC Partners Limited, respectively, and are included in the above emoluments figures.

7. Interest payable

	2004 £'000
Interest on bank loans and overdrafts	733
Loan note interest	1,313
Finance leases	8
Other interest and similar charges	212
	<u>2,266</u>

8. Taxation

(a) Analysis of tax charge in the period:

	2004 £000
<i>Current tax:</i>	
Adjustments in respect of previous periods	-
	<u>-</u>
<i>Foreign tax</i>	
Current tax	29
Adjustments in respect of previous periods	-
	<u>29</u>
Total current tax (note 8(b))	<u>29</u>

Notes to the accounts

As at 30 April 2004

8. Taxation (continued)

(b) Factors affecting the tax charge for the period

The tax assessed on the loss on ordinary activities for the period is higher than the standard rate of corporation tax in the UK of 30%. The differences are reconciled below:

	2004 £000
Loss on ordinary activities before tax	(4,978)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(1,493)
Disallowed expenses and non taxable income	1,169
Capital allowances in excess of depreciation	(7)
Tax losses not utilised	822
Tax losses brought forward utilised	(454)
Difference on underlying rates of tax	(41)
Withholding tax	4
Manufacturing tax relief on overseas income	(6)
Other timing differences	35
Total current tax (note 8(a))	29

(c) Factors that may affect future tax changes

The deferred tax asset has not been recognised on the basis that it is considered unlikely to be recoverable in the foreseeable future. The deferred tax asset in the group and company is as follows:

	Group	Unprovided Company
	2004	2004
	£000	£000
Accelerated capital allowances	(306)	-
Other timing differences	(81)	(12)
Tax losses carried forward	(3,339)	(211)
	(3,726)	(223)

9. Appropriations

	2004 £000
Appropriations on equity shares:	
Unpaid dividends on A ordinary shares	4

10. Loss attributable to shareholders

In accordance with Section 230(1) Companies Act 1985, the company is not required to publish its own profit and loss account. The loss of the company for the period was £1,319,000.

Notes to the accounts

As at 30 April 2004

11. Intangible fixed assets

Group

	<i>Goodwill £'000</i>
<i>Cost:</i>	
Additions during the period (see note 13)	22,118
At 30 April 2004	22,118
<i>Amortisation:</i>	
Charge in the year	2,530
At 30 April 2004	2,530
<i>Net book value:</i>	
At 30 April 2004	19,588

Goodwill is being written off in equal annual instalments, pro-rata for part years, over its estimated economic life of 10 years.

12. Tangible fixed assets

Group

	<i>Leasehold Improvements £'000</i>	<i>Motor vehicles £'000</i>	<i>Computer equipment £'000</i>	<i>Fixtures & fittings £'000</i>	<i>Total £'000</i>
<i>Cost:</i>					
Arising on acquisitions of Xpert Communications Limited	40	28	357	87	512
Arising on acquisition of Genesis Telecommunications Limited	-	2	43	23	68
Additions	66	34	403	57	560
Disposals	-	(6)	-	-	(6)
At 30 April 2004	106	58	803	167	1,134
<i>Depreciation:</i>					
Provided during the year	37	17	316	56	426
Disposals	-	-	-	-	-
At 30 April 2004	37	17	316	56	426
<i>Net book value:</i>					
At 30 April 2004	69	41	487	111	708

Notes to the accounts

As at 30 April 2004

13. Investments

<i>Company</i>	<i>2004</i>
	<i>£'000</i>
<i>Investments in subsidiary undertakings:</i>	
Additions during the period	14,858
Disposals during the period	(608)
	<hr/>
At 30 April 2004	14,250
	<hr/>

Xpert Group Limited holds, either directly or indirectly, 100% of the issued share capital and voting rights of the following companies:

<i>Subsidiary undertakings</i>	<i>Country of Registration</i>	<i>Principal activity</i>
Xpert Communications Limited	England	Investment holding company
Xpert Group (Ireland) Limited	Ireland (‡)	Investment holding company
Xpert Systems (Ireland) Limited	Ireland (‡)	Manufacturer and re-engineering of computer systems
Xpert Systems Limited	England (‡)	Supplier of a range of computer services
Caltell Communications Limited	England (‡)	Supplier of a range of computer and telecommunication services
Genesis Telecommunications Limited	England (‡)	Supplier of a range of telecommunication services
Castleton Communications Limited	England (‡)	Non-trading company
Xpert Connect Limited	England (‡)	Non-trading
Telecom Systems (UK) Limited	England (‡)	Non-trading
Genesis Telecommunications Trustees Limited	England (‡)	Non-trading

‡ Held by subsidiary undertaking

On 31 January 2003 the company acquired ownership of all of the above companies through the purchase of the entire share capital of Xpert Communications Limited. The acquisition of Xpert Communications Limited can be analysed as follows:

Net assets at date of acquisition:

	<i>Book value</i>	<i>Fair value adjustments</i>	<i>Fair value</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Tangible fixed assets	512	-	512
Stocks	1,091	-	1,091
Debtors	4,309	-	4,309
Cash at bank	1,247	-	1,247
Creditors due within one year	(6,496)	-	(6,496)
Creditors due after more than one year	(18,034)	-	(18,034)
	<hr/>	<hr/>	<hr/>
	(17,371)	-	(17,371)
	<hr/>	<hr/>	<hr/>
Goodwill arising on acquisition (note 11)			17,412
			<hr/>
			41
			<hr/>

Notes to the accounts

As at 30 April 2004

13. Investments (continued)

Discharged by:

2004

£'000

Fair value of shares issued 41

On 30 April 2004 Xpert Communications Limited issued 89,375 ordinary shares of £1 each at a value of £158.98 per share to the company.

On 22 July 2003 the company acquired the entire share capital of Genesis Telecommunications Limited. The acquisition of Genesis Telecommunications Limited can be analysed as follows:

Net assets at date of acquisition:

	<i>Book value</i>	<i>Fair value</i>		<i>Fair value</i>
	<i>£'000</i>	<i>adjustments</i>		<i>£'000</i>
	<i>£'000</i>	<i>£'000</i>		<i>£'000</i>
Intangible fixed assets	28	(28) (a)	-	-
Tangible fixed assets	297	(229) (b)	68	68
Stocks	881	(707) (c)	174	174
Debtors	2,001	(501) (d)	1,500	1,500
Cash at bank	325	-	325	325
Creditors due within one year	(3,058)	(258) (e)	(3,316)	(3,316)
Creditors due after more than one year	(2,849)	-	(2,849)	(2,849)
	<u>(2,375)</u>	<u>(1,723)</u>		<u>(4,098)</u>

Goodwill arising on acquisition (note 11) 4,706

608

Discharged by:

Fair value of shares issued 461

Legal expenses 147

608

Fair value adjustments:

- (a) write-down of goodwill following reassessment of carrying value;
- (b) write-down following reassessment of carrying value;
- (c) write-down of maintenance stocks to ensure consistent accounting policies with the Group;
- (d) write-down of debtors to ensure that consistent accounting policies in respect of revenue recognition with the Group and also following reassessment of specific bad debts provision;
- (e) increase in deferred income to ensure that consistent accounting policies in respect of revenue recognition with the Group.

Notes to the accounts

As at 30 April 2004

14. Stocks

	Group 2004 £'000
Finished goods and goods for resale	575

15. Debtors

	Group 2004 £'000	Company 2004 £'000
<i>Amounts falling due within one year:</i>		
Trade debtors	4,284	-
Prepayments and accrued income	1,601	5
	<u>5,885</u>	<u>5</u>

16. Creditors: amounts falling due within one year

	Group £	Company £
Bank loan	500	-
Loan notes	161	-
Trade creditors	1,884	-
Amounts owed to subsidiary undertakings	-	292
Obligations under finance lease and hire purchase contracts	34	-
Corporation tax	148	-
Other taxation and social security	869	-
Accruals and deferred income	5,979	-
Dividends	4	4
	<u>9,579</u>	<u>296</u>

The bank loan and overdraft are secured on a fixed and floating charge over the group's assets.

Notes to the accounts

As at 30 April 2004

17. Creditors: amounts falling due after more than one year

	Group 2004 £'000	Company 2003 £'000
Bank loan	7,848	-
8% Fixed rate unsecured euro loan notes 2010 (€1,423,107)	961	-
8% Fixed rate unsecured euro loan notes 2004 (€476,152)	322	-
18.42% Fixed rate secured loan notes 2011	1,900	1,900
	<hr/> 11,031	<hr/> 1,900
Less: issue costs	(150)	-
	<hr/> 10,881	<hr/> 1,900
Less: included in creditors: amounts falling due within one year	(661)	-
	<hr/> 10,220	<hr/> 1,900
	<hr/> <hr/>	<hr/> <hr/>

The bank loan is secured on a fixed and floating charge over the group's assets.

The 8% fixed rate unsecured euro loan notes were issued on 14 May 2001 as part of the consideration for the acquisition of Xpert Group Limited (incorporated in Republic of Ireland) by Xpert Communications Limited. They were originally denominated in punts but following the adoption of the euro as the Irish currency with effect from 1 January 2002 they were redenominated as euro loan notes, converted at the official punt/euro conversion rate of 0.787564.

The principal on the 8% fixed rate unsecured euro loan notes 2004 together with any accrued interest then due, is repayable in two equal instalments of €238,076 on 30 April 2005 and 30 April 2006. Interest due on the loan notes has been accrued in the financial statements and the first payment was due on 14 May 2002.

The principal on the 8% fixed rate unsecured euro loan notes 2010 together with any accrued interest then due, is repayable no later than 14 May 2010. The group may, subject to the terms of the Subordination Deed, at any time prior to the maturity date redeem the whole or part of the Notes, plus accrued interest outstanding at that time.

The principal on the 18.42% fixed rate secured loan notes 2011 together with any accrued interest then due, is repayable no later than 30 April 2011. The group may, subject to the terms of the Subordination Deed, at any time prior to the maturity date redeem the whole or part of the Notes, plus accrued interest outstanding at that time.

The bank loan is denominated partly in sterling and partly in euros and bears interest at 2% above LIBOR and is repayable as follows:

	2004 £000
Amounts falling due:	
In one year or less	500
In more than one year but not more than two years	700
In more than two years but not more than five years	3,750
In more than five years	2,898
	<hr/> 7,848
	<hr/> <hr/>

Notes to the accounts

As at 30 April 2004

18. Obligations under hire purchase and finance agreements

Amounts due under finance lease and hire purchase contracts:

	2004 £'000
Amounts payable within one year	39
Amounts payable after more than one year, but less than five years	-
	<hr/> 39
Less: finance charges allocated to future periods	(5)
	<hr/> 34
	<hr/> <hr/>
Due within one year	34
Due after one year	-
	<hr/> 34
	<hr/> <hr/>

19. Share capital

Authorised

	No.	2004 £
Cumulative convertible participating preferred A ordinary shares of 10p each	404,360	40,436
B ordinary shares of 10p each	7,875	788
C ordinary shares of 46p each	148,908	68,498
D ordinary shares of 46p each	68,791	31,644
E ordinary shares of £1 each	460,875	460,875
Deferred shares of £1 each	262,000	262,000
Cumulative redeemable preference shares of £1 each	7,522,194	7,522,194
		<hr/> 8,386,435
		<hr/> <hr/>

Allotted, called up and fully paid

	No.	2004 £
Cumulative convertible participating preferred A ordinary shares of 10p each	404,360	40,436
C ordinary shares of 46p each	147,166	67,696
D ordinary shares of 46p each	62,477	28,750
E ordinary shares of £1 each	460,875	460,875
Deferred shares of £1 each	262,000	262,000
Cumulative redeemable preference shares of £1 each	7,522,194	7,522,194
		<hr/> 8,381,951
		<hr/> <hr/>

Upon incorporation the company had an authorised and issued share capital of 10,000 ordinary shares of £1 each of which 2 were issued fully paid.

Notes to the accounts

As at 30 April 2004

19. Share capital (continued)

On 31 January 2003 the ordinary shares were reclassified as 1,000,000 C ordinary shares of £0.01p each. Also on 31 January 2003 the company increased the authorised share capital from £10,000 to £141,645 by the creation of 404,360 cumulative convertible participating A ordinary shares of £0.10p each, 7,875 B ordinary shares of £0.10p each, 6,600,856 C ordinary shares of £0.01p each and 2,413,298 D ordinary shares of £0.01p.

On 31 January 2003 the company issued 5,547,676 C ordinary shares of £0.01p each at par and 1,742,342 D ordinary shares of £0.01p each at par. On the same date the 6,600,856 issued and unissued C ordinary shares of £0.01p each were consolidated into 165,636 C ordinary shares of £0.46p each and the 2,413,298 issued and unissued D ordinary shares of £0.01p each were consolidated into 52,463 D ordinary shares of £0.46p each.

Also on 31 January 2003 the company issued 28,302 C ordinary shares of £0.46p each at a value of £13,018.92 per share and 11,974 D ordinary shares of £0.46p each at a value of £5,508.04 per share.

On 1 February 2003 the company issued 404,360 cumulative convertible participating A ordinary shares of £0.10 per share in part consideration for the acquisition of Xpert Communications Limited.

On 22 July 2003 the company increased the authorised share capital from £131,645 to £864,240 by the creation of 460,875 E ordinary shares of £1 each and 262,000 Deferred shares of £1 each. On the same date the company issued 460,875 E ordinary shares of £1 each in consideration for the entire issued share capital of Genesis Telecommunications Limited.

Also on 22 July 2003 the company issued 262,000 Deferred shares of £1 each at par.

On 30 April 2004 the company increased the authorised share capital from £864,240 to £8,386,240 by the creation of 7,522,194 preference shares of £1 each. Also on 30 April 2004 14,151 issued and 2,171 unissued C ordinary shares of £0.46p each were reclassified as 16,322 D ordinary shares of £0.46p each.

On the same date the company issued 7,522,194 preference shares of £1 each at a value of £1.6647 per share for the purposes of redeeming (and paying all accrued interest thereon) the £4,626,438 8% fixed rate unsecured loan notes 2011, redeeming the £3,771,000 8% fixed rate unsecured loan notes 2009, redeeming the £1,000,000 8% fixed rate unsecured loan notes 2001 and redeeming the £1,950,000 8% fixed rate unsecured loan notes 2009.

The A Ordinary shares, B ordinary shares, C Ordinary shares, D Ordinary shares, E Ordinary shares, Deferred shares and Preference shares have the following rights and restrictions:

Voting rights

The A ordinary shares shall, regardless of the number of A ordinary shares in issue, on a show of hands or on a poll, together represent 50 per cent of the voting rights attaching to all shares.

The B ordinary shares and C ordinary shares shall, regardless of the number of B ordinary shares and C ordinary shares in issue, on a show of hands or on a poll, together represent 50 per cent of the voting rights attaching to all shares.

The votes capable of being cast by each member holding shares of a class (with the B ordinary shares and C ordinary shares being treated as one class for these purposes) shall be calculated on a pro rata basis by reference to the percentage of shares of that class held by each such member.

The holder of the preference shares carry rights to receive notice of, and to attend and speak at general meetings of the company.

The holders of the D ordinary shares, E ordinary shares and Deferred shares shall have no right to receive notice of, attend or vote at any general meetings of the company.

Notes to the accounts

As at 30 April 2004

19. Share capital (continued)

Dividends

The profits of the company are available for distribution as follows:

Preference shares

They are entitled to receive a fixed cumulative preferential cash dividend of 10.69% payable in two equal instalments on 30 April and 31 October each year in respect of the six month period ending on those dates, except that the first of such payments will be made on 31 October 2004 and shall be calculated from 30 April 2004 to 31 October 2004.

Cumulative convertible participating preferred A ordinary shares of 10p each

They are entitled to receive a fixed cumulative preferential cash dividend of 8% of the amount credited as paid up on A shares (the "Fixed dividend") payable in two equal instalments on 30 April and 31 October each year in respect of the six month period ending on those dates, except that the first of such payments will be made on 30 April 2003 and shall be calculated from 14 May 2001 to 30 April 2003.

In addition they are entitled to receive a cumulative preferential participating cash dividend (the participating dividend), being a fixed percentage of the adjusted profit as follows:

- For the period 1 May 2002 to 30 April 2003 5% less the amount of Fixed dividend paid in that period;
- For the period 1 May 2003 to 30 April 2004 7.5% less the amount of Fixed dividend paid in that period;
- For all subsequent year ends 10% less the amount of Fixed dividend paid in that period.

Adjusted profit is defined as the consolidated net profit before tax and adjusted for the following items:

- (i) before deducting the amount of all interest payment charged on or payable by the group but after deducting the amount of interest payments charged on or payable by the group to LDC in respect of the loan notes and including the amount of all interest payments received;
- (ii) before making any credit provision or reserve for or in respect of any exceptional items in accordance with Financial Reporting Standard 3;
- (iii) before any amortisation of goodwill.

The participating dividend is payable within 30 days of the date of the annual general meeting of the company or 4 months of the end of the accounting period, whichever is the sooner.

In the event that the company is unable to pay the dividends on the due dates the unpaid amounts carry interest at 3% above Barclays base rate.

E ordinary shares and Deferred shares

The holders of the E ordinary shares and Deferred shares shall no rights to receive dividends or participate in the profits of the company.

Notes to the accounts

As at 30 April 2004

19. Share capital (continued)

Capital

On a return of capital of the company (other than a redemption of shares or the purchase by the company of its own shares), the surplus assets and retained profits of the company are to be applied in the following order and priority:

Priority	Class of share	Amount to be paid:
1.	Preference shares	Amounts credited as paid up on all issued preference shares, together with an amount equal to all arrears and accruals of preference dividends (whether declared or not).
2.	B ordinary shares	Relevant Percentage (being the percentage of the issued share capital represented by B ordinary shares in issue on an Exit) of the Exit premium (as defined below)
	A ordinary shares	Balance of the Exit premium
3.	A ordinary shares	Amounts credited as paid up on all issued A ordinary shares, together with an amount equal to all arrears and accruals of preference dividends (whether declared or not).
4.	B ordinary shares C ordinary shares D ordinary shares	Amounts credited as paid up on all issued B, C and D ordinary shares (pari passu as if the same constituted one class of share).
5.	E ordinary shares	The nominal value of all issued E ordinary shares
6.	B ordinary shares A ordinary shares C and D ordinary shares	In respect of exit proceeds up to £15,000,000: Relevant Percentage 65% of the balance after allocation of the amount due in respect of B ordinary shares 35% of the balance after allocation of the amount due in respect of B ordinary shares
7.	B ordinary shares A ordinary shares C and D ordinary shares	In respect of exit proceeds in excess of £15,000,000 and upto £150,000,000: Relevant Percentage 50% of the balance after allocation of the amount due in respect of B ordinary shares 50% of the balance after allocation of the amount due in respect of B ordinary share
8.	Deferred shares	In respect of exit proceeds in excess of £150,000,000, the amount credited as paid up on all issued deferred shares
9.	B ordinary shares A ordinary shares C and D ordinary shares	In respect of exit proceeds in excess of £150,000,000: Relevant Percentage 50% of the balance after allocation of the amount due in respect of deferred shares and B ordinary shares 50% of the balance after allocation of the amount due in respect of deferred shares and B ordinary shares

Notes to the accounts

As at 30 April 2004

19. Share capital (continued)

The Exit Premium shall be calculated as follows:

- (i) £1,095,000 occurring in the event of an exit within 12 months of 1 February 2003;
- (ii) £1,362,000 occurring in the event of an exit occurring after 12 months but within 21 months of 1 February 2003;
- (iii) £1,733,000 occurring in the event of an exit occurring after 21 months but within 30 months of 1 February 2003;
- (iv) £2,189,000 occurring in the event of an exit occurring after 30 months of 1 February 2003.

Redemption of preference shares

The company may at any time redeem all or any of the issued preference shares by serving notice on the preference shareholders specifying a date (being not less than seven days after the date of the notice) and the particular preference shares to be redeemed. The amount payable will be a sum equal to the amount credited as paid up and all preference share arrears and accruals of the preference dividend (whether earned or declared or not).

20. Reconciliation of shareholders' funds and movements on reserves

<i>Group</i>	<i>Share capital</i>	<i>Share premium account</i>	<i>Profit and shareholders' loss account</i>	<i>Total funds</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Shares issued	8,382	5,000	-	13,382
Loss for the year	-	-	(4,997)	(4,997)
Appropriation for unpaid dividends	-	-	(4)	(4)
Exchange differences on retranslation of net assets of Subsidiary undertakings	-	-	113	113
At 30 April 2004	8,382	5,000	(4,888)	8,494

<i>Company</i>	<i>Share capital</i>	<i>Share premium account</i>	<i>Profit and shareholders' loss account</i>	<i>Total funds</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Shares issued	8,382	5,000	-	13,382
Loss for the period	-	-	(1,319)	(1,319)
Appropriation for unpaid dividends	-	-	(4)	(4)
At 30 April 2004	8,382	5,000	(1,323)	12,059

Notes to the accounts

As at 30 April 2004

21. Commitments under operating leases

Group

At 30 April 2004 the group had annual commitments under non-cancellable operating leases as set out below:

	<i>Land and buildings</i>	<i>Other</i>	<i>Total</i>
	£	£	£
Operating leases which expire			
within one year	114	68	182
in two to five years	313	337	650
over five years	178	-	178
	<u>605</u>	<u>405</u>	<u>1,010</u>

The company did not have any commitments under operating leases.

22. Notes to the statement of cash flows

a) Reconciliation of operating loss to net cash inflow from operating activities:

	£
Operating loss	(2,702)
Depreciation and amortisation	2,956
Loss on sale of fixed assets	6
Decrease in stocks	690
Increase in debtors	(76)
Decrease in creditors	(3,789)
Exchange difference	113
Net cash outflow from operating activities	<u>(2,802)</u>

b) Analysis of changes in net funds

	<i>Cash flow</i>	<i>Arising on Acquisitions</i>	<i>Other</i>	<i>30 April 2004</i>
	£	£	£	£
Cash	1,537	-	-	1,537
Finance lease obligations	6	(40)	-	(34)
Long-term loans	7,153	(18,034)	-	(10,881)
	<u>8,696</u>	<u>(18,074)</u>	<u>-</u>	<u>(9,378)</u>

23. Related party transactions

During the year, M Balaam, a director purchased a vehicle an open market value of £2,750 from Xpert Systems Limited, a group undertaking. This transaction was carried out on an arm's length basis.