

2e2 Group Limited

Report and Financial Statements

31 December 2008

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COMPANIES HOUSE

Directors

T Burt
M McVeigh
N Grossman
S Burt

Secretary

S Burt

Auditors

Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
Berkshire
RG1 1YE

Bankers

Royal Bank of Canada
Thames Court
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HSBC Bank plc
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EC2M 3YB

Lloyds TSB Bank plc
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London
EC2V 7HN

Barclays Bank plc
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London
E14 5HP

Solicitors

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EC2V 7EE

Registered Offices

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Chairman's Statement

I am delighted to present our Annual Report and Accounts for 2008. We are very pleased with progress in what was a challenging year for all businesses. Our organic growth has remained strong and this was enhanced by the acquisition of Netstore plc in October. Trading has been satisfactory in most parts of our business and we are increasingly seeing customers take advantage of a broader range of our services.

October saw the completion of our acquisition of Netstore plc. Netstore delivers powerful IT platforms, applications and services specialising in Managed Services, Applications and Infrastructure Consulting, and Security Services. The acquisition was particularly compelling in the current economic environment due to the high proportion of recurring revenues, strong public sector presence and focus on high growth sectors.

Netstore complements 2e2's existing offering, adding further value to the customer bases of both businesses and increasing the range and depth of the our services. The increase in scale will enable the Group to compete more effectively in its target markets and to attract and motivate high calibre staff.

The transaction was completed during a very difficult time in the financial markets, and this is testament to the confidence shown in the group by its financial partners. The Group refinanced its bank borrowings as part of the transaction. We are pleased to welcome RBC Capital Markets and Barclays Bank to the syndicate of banks. Together with the existing syndicate members, our equity partner Duke Street, staff and management we were able to put together a funding package to secure the acquisition and the future working capital requirements of the Group.

In July, the management team of Hamilton Rentals, the group's IT Rentals specialist, completed a buyout of that business. We retain a close relationship with the new company and wish the team every success in the future.

We have restructured the business to integrate Netstore into our service offerings and ensure that we can go to market with very clear propositions based around our technical capabilities and vertical sector knowledge. This has been well received by our customer base and has helped us make a strong start to the New Year.

The UK entered a recession during 2008 and it is clear that 2009 will a very difficult year. Whilst current trading is encouraging, the restructuring of the business following the acquisition has given us the opportunity to ready the business for the economic downturn. We have taken a number of precautionary measures to reduce costs and hence make an unpredictable environment more manageable, whilst maintaining our quality of service and staff excellence. We are confident that 2009 will be another successful year for the group.

For further information please visit our website at www.2e2.com or email us at info@2e2.com.

Eric Priestley
Chairman
2e2 Holdings Limited

Chief Executive's Review

I am delighted to present our results for the year ended 31 December 2008.

2008 was another strong year for 2e2 and I am very pleased with the progress made. The economies in which we operate entered recession during the year, but we have been able to maintain our track record of growth.

We completed the acquisition of Netstore and the sale of Hamilton Rentals, both of which were strategic goals set at the beginning of the year. Our progress continues to be recognised with additional accreditations from our partners and awards from industry bodies. We remain dependent on the skills and dedication of our staff in order to achieve such recognition and I thank everyone for their hard work and support.

Results

Group turnover for the year from continuing operations was £194m (2007: £178m), an increase of 9%. The strong growth has been helped by some key contract wins, many of which will continue to contribute revenues in the future.

We have had great success in increasing revenues from our larger customers, as well as securing a number of important new clients during the year,

In October 2008 we acquired Netstore plc for £59m. The Netstore operations have already been integrated into our UK business and their staff and management have taken on some of the key roles in the management structure of the enlarged business. I am particularly pleased to have acquired Netstore as I believe it has added important skills to our offering. The transaction brings together two strong and established names in the IT services industry to create an enhanced platform for the continued growth of 2e2. This acquisition delivers an exceptional opportunity for us to engage more broadly with our customers and adds further momentum to 2e2 as a major force in the UK market.

An additional benefit of the Netstore transaction is that it has increased the proportion of our revenues that are contracted and recurring. This is particularly important at the moment when economic conditions are more difficult. Approximately 50% of Netstore revenues are derived from the public sector and this strengthens our position as a leading provider of IT Solutions and Services in that vertical market.

EBITDA before exceptional items from continuing operations increased to £24.6m (2007: £18.4m). Operating profit from continuing operations was 11.4m (2007: £8.7m).

Operational review

We made one acquisition during the year, Netstore, which was acquired from the former shareholders in October. Netstore provides managed services, integration and applications consulting, and security solutions. The business has already been integrated into the managed services and software and consulting practices. The managed services integration has enabled us to enhance customer service as we have benefited from Netstore's expertise, their datacentre facilities, and the increased scale of our operations.

Netstore opened its new high power, high resilience data hall in the summer, offering additional capacity for managed services expansion as well co-location services. The facility is ISO27001 compliant and has room for more than 200 racks ranging from 4KW to 22KW of power each. There is 1MW of power capacity in total.

As well as the integration of Netstore, we completed the integration of the former Compel businesses. We also undertook a fundamental reorganisation of the UK group. This included a reorganisation of the management structure and operations within the UK business. The UK business had previously been organised as separately managed corporate entities. The combined business is now organised by technology specialisations, under a united management structure, which is served by centralised shared support and service delivery functions. Whilst the business is now structured around our key technology offerings we retain vertical market expertise in order to drive organic growth and cross selling of services.

Chief Executive's Review (continued)

This has enabled us to offer an increasing number of propositions based around Software as a Service (SaaS) and hosted solutions which are in growing demand as organisations continue to seek lower operating cost models. We have also focused increasingly on selected verticals, including public sector which now accounts for more than one quarter of our revenues.

The Group was awarded a number of important new accreditations during the year, including Voice Ready Partner for Microsoft, Certification for Microsoft SharePoint Deployment Planning Services, HP Platinum Partner status for consulting services and Gold Status by the Institute of IT Training. In May, at Cisco's global awards, 2e2 was awarded Cisco Solutions Partner of the Year for the UK. These awards recognise the outstanding performance of the whole 2e2 team.

Financing

In order to fund the acquisition of Netstore, the group refinanced its bank borrowings. RBC Capital Markets arranged the new facilities alongside the three existing bank syndicate members (HSBC Bank, Lloyds TSB Bank and Bank of Scotland) and Barclays Bank. We are very grateful for the support from all of the banks in what is currently a very difficult market to arrange lending. The bank borrowings were supported by additional investment of close to £40 million from Duke Street, the group's majority shareholder. Management and staff shareholders also invested additional funds in support of the transaction. The bank facilities include a substantial working capital facility to help fund the future growth of the business.

2008 was also a year of capital investment for the business with a new training centre opening in Victoria and a new headquarters for our Data Management division near Heathrow. Additionally we opened a further datacentre on Guernsey where our existing facility was approaching capacity following continued strong growth in the delivery of disaster recovery and hosted services.

Summary

2008 was a very satisfying year for the group. We achieved a number of important strategic objectives and have built a stronger business as a result. The acquisition of Netstore completed the group's service offering and as such it is unlikely that we will be seeking further acquisitions in the near future. This will allow management to focus on optimising the business for the challenging market ahead. The group has continued to grow in the tough economic climate. We believe that this has been possible by remaining agile and responsive to customers' needs whilst being large enough to provide peace of mind. We hope that this rare combination will allow 2e2 to continue to be IT partner of choice for a growing number of organisations.

Terry Burt
Chief Executive Officer

Directors' report

The directors' present their report and financial statements for the year ended 31 December 2008.

Principal activity

The principal activity of the group is the delivery of outsourced computer services, focusing on the Unified Communications, Technology Solutions, Managed Services and Business Applications Solutions. These services are delivered to customers in the UK, Channel Islands, Isle of Man and The Netherlands. The group continues to expand its activities through a combination of organic growth and acquisitions.

Review of the business

There was an operating profit for the year of £10.1m (2007: £10.3m).

In July 2008, the group disposed of Hamilton Rentals Limited and associated companies for consideration of £8.6m.

In October 2008, the company acquired the entire share capital of Netstore plc. Netstore provides managed services, security consulting solutions. To facilitate the transaction, the company's parent refinanced its existing bank borrowings. 2e2 Limited became the principal borrower of the group's bank facilities. The new facilities were used to refinance existing group borrowings as well as contribute to the acquisition of Netstore.

The bank facilities were arranged by RBC Capital Markets alongside HSBC Bank, Lloyds TSB Bank Bank of Scotland and Barclays Bank. Additional equity finance for the transaction was provided Duke Street and the Group's management shareholders. The directors are grateful for the support shown by all funders.

The retained profit for the year after taxation amounted to £2.4m (2007: loss £0.6m). Included within operating profits, certain exceptional one-off costs have been highlighted on the face of the profit and loss account to give a better understanding of the underlying performance of the group. These costs amount to £5.6m (2007: £4.2m) and relate to the integration and restructuring of the UK companies.

The group also incurred costs of £3.4m in relation to a fundamental reorganisation. These costs were incurred as a result of the reorganisation of the management structure and operations within the UK business following the acquisition and subsequent integration of Netstore. The UK business had previously been organised as separately managed corporate entities. The combined business is now organised by technology specialisations, under a united management structure, which is served by centralised share support and service delivery functions.

The directors are satisfied with the performance of the group during the year. They do not recommend the payment of a dividend (2007: £nil).

Directors and their interests

The directors who served during the year ended 31 December 2008 were:

T Burt
M McVeigh
N Grossman
S Burt

None of the directors had any interest in the share capital of the company at the end of the year. Their interests in the share capital and loan stock of 2e2 Holdings Limited, the ultimate holding company, are as follows:

Directors' report (continued)

	<i>Number of A ordinary shares</i>	<i>Number of C ordinary shares</i>	<i>Number of Preference shares</i>	<i>Amount of loan stock</i>
T Burt	133,582	534,694	2,351,079	2,493,579
M McVeigh	106,671	430,932	1,894,832	2,037,332
N Grossman	66,840	58,855	258,788	292,038
S Burt	93,576	58,855	258,788	292,038

Their interests in the share capital and loan stock at the end of the previous financial year were as follows:

	<i>Number of A ordinary shares</i>	<i>Number of C ordinary shares</i>	<i>Number of Preference shares</i>	<i>Amount of loan stock</i>
T Burt	133,582	534,694	2,351,079	2,351,079
M McVeigh	106,671	430,932	1,894,832	1,894,832
N Grossman	66,840	58,855	258,788	258,788
S Burt	93,576	58,855	258,788	258,788

No director had, during or at the end of the year, a material interest in any contract, which was significant in relation to the group's business.

Directors' qualifying third party indemnity provision

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 1985. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the group's auditors, each of these directors confirm that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the group's auditors are not aware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the group's auditors are aware of that information.

Employee involvement

The group maintains a practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group.

Disabled employees

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the group may continue.

Directors' report (continued)

It is the policy of the group that training, career development and promotion opportunities be available to all employees.

Supplier payment policy

It is the policy of the group to pay all amounts due to suppliers as they fall due. As at 31 December 2008, trade creditors of the group were equivalent to 49 days purchases (2007: 47 days).

Share-based payments

All employee share option plan

Employees may be awarded share options as a reward for past performance or to incentivise future performance. The options will vest if the employee remains in service for a period of four years from the date of grant. The contractual life of the options is ten years and there are no cash settlement alternatives. During the year a total of 48,675 options were granted, and these remain outstanding at the end of the year

Principal risks and uncertainties

Discussed below are the group's major business risks, together with systems and initiatives in place to address them:

Market

The IT services market is subject to fluctuations of demand by customers. These fluctuations are linked to the economic cycle and changes in the spending patterns of customers. In addition, the group works with a number of key vendors and it is important to maintain strong relationships and terms of business with these partners.

Operational

This relates to the risk of financial loss resulting from internal processes, people and systems. The group manages this risk through appropriate internal controls and proactive intervention, such as management reporting systems, insurances, business interruption and disaster recovery planning.

Liquidity

This relates to the risk that the group is unable to fund its requirements because of insufficient banking facilities. The group manages liquidity risk via a revolving credit facilities and long term debt. During the year the group refinanced its bank facilities to fund the acquisition of Netstore.

Credit risk

This relates to the risk that one party to a financial instrument will cause a financial loss for that other party by failing to discharge an obligation. Group policies are aimed at minimising such losses and require that deferred terms are only granted to customers who demonstrate an appropriate payment history and satisfy credit worthiness procedures.

Key performance indicators

The senior management of the group focus on a number of key performance indicators. These include sales bookings and billings, the value of contracted annuity revenues, gross margins and staff utilisation. These, along with other measures, are monitored regularly with explanations sought for variances against expectations. Management have reviewed the key performance indicators during the year and are satisfied with the results.

Corporate governance

The directors recognise the importance of adopting good corporate governance practices in the best interests of shareholders as a whole.

Directors' report (continued)

Going concern

The directors, after making appropriate enquiries, have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the directors continue to adopt the going concern basis in preparing the financial statements.

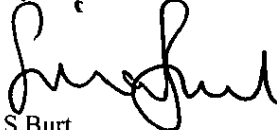
Future developments

In the future the group will continue to investigate suitable acquisition opportunities where it feels these will strengthen its offerings to customers. The group is also planning to continue the integration activities in order to maximise the benefits of the increasing scale of the group.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the Board



S Burt
Director

Date: 30 March 2009

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on 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 that disclose with reasonable accuracy at any time the financial position of the group and 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 group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

to the members of 2e2 Group Limited

We have audited the group and parent company financial statements (the "financial statements") of 2e2 Group Limited for the year ended 31 December 2008 which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the 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.

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 group's and 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 2e2 Group Limited (continued)

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 group's and the parent company's affairs as at 31 December 2008 and of the group's 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Reading

Date: 30 March 2009

Group profit and loss account

for the year ended 31 December 2008

	Note	Continuing operations £'000	Discontinued operations £'000	Total 2008 £'000	2007 £'000
Turnover					
Continuing operations	2	183,096	-	183,096	178,354
Acquisitions		10,560	-	10,560	-
		193,656	-	193,656	178,354
Discontinued operations		-	11,292	11,292	24,848
Group Turnover		193,656	11,292	204,948	203,202
Cost of sales		(123,390)	(8,910)	(132,300)	(128,919)
Gross profit		70,266	2,382	72,648	74,283
Administration expenses		(45,663)	(3,523)	(49,187)	(54,233)
Operating profit before depreciation, amortisation of goodwill and exceptional items*					
		24,603	(1,141)	23,461	20,050
Depreciation (non-rental assets)		(1,989)	(64)	(2,053)	(1,291)
Amortisation of goodwill	3	(5,737)	-	(5,737)	(4,244)
Exceptional administration expenses	3	(5,429)	(174)	(5,603)	(4,223)
Operating profit					
Continuing operations		12,884	-	12,884	8,678
Acquisitions		(1,436)	-	(1,436)	-
		11,448	-	11,448	8,678
Discontinued operations		-	(1,379)	(1,379)	1,614
Group operating profit		11,448	(1,379)	10,069	10,292
Cost of fundamental restructuring	3	(3,395)	-	(3,395)	-
Net interest and other similar charges	4	(3,546)	-	(3,546)	(9,979)
Profit on ordinary activities before taxation	3	4,507	(1,379)	3,128	313
Tax on profit on ordinary activities	6	(713)	-	(713)	(965)
Profit/(loss) for the year attributable to members of the parent company	20	3,794	(1,379)	2,415	(652)

* Non-statutory disclosure, presented for supplementary understanding of the financial statements.

Group statement of total recognised gains and losses

for the year ended 31 December 2008

	2008 £'000	2007 £'000
Profit / (loss) for the year	2,415	(652)
Currency translation differences on foreign currency net investments	(4,290)	(808)
Total recognised gains and losses related to the year	<u>(1,875)</u>	<u>(1,460)</u>

Group balance sheet

at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Intangible assets - goodwill	9	146,871	93,448
Tangible assets	10	17,375	11,710
		<u>164,246</u>	<u>105,158</u>
Current assets			
Stocks	12	5,372	8,076
Debtors - amounts due within one year	13	58,450	51,811
Debtors: amounts due after more than one year	13	3,644	4,385
Cash at bank and in hand		3,718	11,168
		<u>71,184</u>	<u>75,440</u>
Creditors: amounts falling due within one year	14	(50,815)	(39,111)
Net current assets		<u>20,369</u>	<u>36,329</u>
Total assets less current liabilities		<u>184,615</u>	<u>141,487</u>
Financed by:			
Creditors: amounts falling due after more than one year	15	163,407	122,795
Deferred income	16	19,831	15,441
		<u></u>	<u></u>
Capital and Reserves			
Called up share capital	19	105	105
Share premium account	20	265	265
Other reserves	20	458	458
Profit and loss account	20	549	2,423
		<u>1,377</u>	<u>3,251</u>
Shareholders' funds and net assets		<u>184,615</u>	<u>141,487</u>

Approved by the Board



T Burt

Director

Date:

30 March 2009

Company balance sheet

at 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	10	1	1
Investments	11	222	222
		<u>223</u>	<u>223</u>
Current assets			
Debtors	13	14,216	3,872
Cash at bank		-	448
		<u>14,216</u>	<u>4,320</u>
Creditors: amounts falling due within one year	14	(67)	(353)
		<u>14,149</u>	<u>3,967</u>
Net current assets			
		<u>14,372</u>	<u>4,190</u>
Total assets less current liabilities			
		<u><u>14,372</u></u>	<u><u>4,190</u></u>
Financed by:			
Creditors: amounts falling due after more than one year	15	8,240	-
		<u>8,240</u>	<u>-</u>
Capital and Reserves			
Called up share capital	19	105	105
Share premium account	20	265	265
Other reserves	20	51	51
Profit and loss account	20	5,711	3,769
		<u>6,132</u>	<u>4,190</u>
Shareholders' funds and net assets		<u>14,372</u>	<u>4,190</u>
		<u><u>14,372</u></u>	<u><u>4,190</u></u>

Approved by the Board

T Burt

Director

Date:

30 March 2009

Group cash flow statement

for the year ended 31 December 2008

	Note	2008 £'000	2007 £'000
Net cash inflow from operating activities	21	21,224	24,529
Returns on investments and servicing of finance			
Interest received		84	303
Interest paid		(3,243)	(223)
Finance lease interest paid		(16)	(4)
Net cash outflow from returns on investments and servicing of finance		(3,175)	76
Taxation		(203)	(427)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(9,086)	(7,810)
Net cash outflow from capital expenditure and financial investment		(9,086)	(7,810)
Acquisitions and disposals			
Purchase of subsidiary undertakings	24	(63,054)	(55,201)
Net (debt)/cash from purchase of subsidiary undertakings	24	(385)	1,407
Sale of subsidiary undertaking	25	8,400	-
Net cash transferred with subsidiary undertaking	25	(1,303)	-
Payments in respect of prior year acquisitions		-	(1,276)
Net cash outflow from acquisitions and disposals		(56,342)	(55,070)
Net cash outflow before financing		(47,582)	(38,702)
Financing			
Receipt/(repayment) of borrowings		154,221	(87)
(Repayment)/receipt of loans from parent company		(115,374)	46,208
Finance leases		650	-
Net cash inflow from financing		39,497	46,121
(Decrease)/increase in cash	23	(8,085)	7,419

Notes to the financial statements

at 31 December 2008

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings (see note 11), drawn up to 31 December 2008.

Subsidiary undertakings

The acquisition method of accounting has been adopted for acquisitions. Under this method the results of the subsidiary undertakings acquired or disposed of in the year are included in the profit and loss account from the date of acquisition or up to the date of disposal.

In the company's financial statements, investments in subsidiary undertakings are stated at cost less any provisions for diminution in value.

In accordance with section 230 of the Companies Act 1985, 2e2 Group Limited is exempt from the requirement to present its own profit and loss account.

Goodwill

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life, generally 20 years.

Negative goodwill is written back to the profit and loss account to match the recovery of the non-monetary assets acquired.

Turnover

Turnover is the total amount receivable by the group for goods supplied and services provided, excluding VAT and trade discounts. Service revenues invoiced in advance are taken to income evenly over the period of delivery of the service.

In the case of long-term contracts, turnover reflects the contract activity during the year and represents the proportion of total contract value which costs incurred to date bear to total expected contract costs.

Revenue from equipment rentals is recognised over the term of the agreement on a straight line basis. Any unrecognised revenue element is shown separately in the balance sheet as deferred income. For certain rental equipment arrangements, the company receives a discount against the purchase of products from the suppliers of this rental equipment. For these arrangements, revenue is equal to the discount received by the company which is recognised over the term of the rental agreement.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

Long-term contracts

The attributable profit on long-term contracts is recognised once their outcome can be assessed with reasonable certainty. The profit recognised reflects the proportion of work completed to date on the project.

Costs associated with long-term contracts are included in stock to the extent that they cannot be matched with contract work accounted for as turnover. Long-term contract balances included in stocks are stated at cost, after provision has been made for any foreseeable losses and the deduction of applicable payments on account.

Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is calculated to write down the cost of all tangible fixed assets by equal annual instalments over their estimated useful economic lives or lease term if shorter. The rates generally applicable are:

Leasehold improvements	Term of the lease
Computer equipment	3-4 years
Fixtures and fittings	4 years
Motor vehicles	4 years
Rental assets	2 – 3 years

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their estimated useful economic lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease. All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight-line basis over the lease term.

Investments

Investments are included at cost less amounts written off.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. The financial statements of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The exchange differences arising from the retranslation of the opening net investment in subsidiaries are taken directly to reserves. Where exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

Notes to the financial statements

at 31 December 2008

1. Accounting policies (continued)

Research and development

Research and development expenditure is charged to the profit and loss account in the period in which it is incurred.

Pensions

The group operates a number of defined contribution pension schemes. Contributions are charged in the profit and loss account as they become payable.

Share options

The group issues equity-settled share-based payments to certain employees and advisers. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions at the date of grant). The fair value so determined has been expensed on a straight-line basis over the vesting period, based on the group's estimate of the number of shares that will eventually vest, and adjusted for the effect of non-market vesting conditions.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

Fair value is measured using a Black-Scholes-Merton option pricing model. The key assumptions used in the model have been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

2. Turnover

Turnover is wholly attributable to the provision of Information Technology Solutions. An analysis of turnover by geographical market is given below.

	2008 £'000	2007 £'000
United Kingdom (including the Channel Islands and the Isle of Man)	180,742	179,062
Europe	24,206	24,140
	<u>204,948</u>	<u>203,202</u>

Included within turnover is £1.1m (2007: £3.2m) relating to barter transactions related to the company's equipment rentals division.

The discontinued operations incorporates Hamilton Rentals Limited, the subsidiary which rented and sold computer and other IT and AV equipment. The revenues of Netstore Limited, which was acquired on 3 October 2008, all relate to the provision of managed application software services, IT security solutions and related consultancy.

Notes to the financial statements

at 31 December 2008

3. Profit on ordinary activities before taxation

The profit on ordinary activities before taxation is stated after charging:

	2008 £'000	2007 £'000
Auditors' remuneration - audit services - UK	319	315
- Overseas	77	45
- non-audit services	412	64
Depreciation and amortisation		
- goodwill (see note 9)	5,737	4,244
- tangible fixed assets - owned	6,466	4,947
- held under finance leases and hire purchase contracts	231	42
FRS 20 share option charges	2	4
Other operating lease rentals	6,208	5,240
Exceptional restructuring and integration costs	5,429	4,223
Fundamental restructuring costs	3,395	-

Exceptional restructuring costs

The restructuring costs relate to the following activities:

	2008 £'000	2007 £'000
Restructuring costs and redundancy costs in the UK group	3,918	1,369
Restructuring costs and redundancy costs in the Netherlands group	1,511	856
Restructuring costs within Compel following acquisition by the group	-	1,998
	5,429	4,223

Fundamental restructuring costs

The group incurred costs of £3.4m in relation to a fundamental reorganisation. These costs were incurred as a result of the reorganisation of the management structure and operations within the UK business following the acquisition and subsequent integration of Netstore. The UK business had previously been organised as separately managed corporate entities. The combined business is now organised by technology specialisation, under a united management structure, which is served by centralised support and service delivery functions.

Notes to the financial statements

at 31 December 2008

The amounts shown within the profit and loss account for the year include the following in respect of acquisitions:

	2008 £'000	2007 £'000
Cost of sales	5,578	52,597
Administration expenses	2,922	13,577
Depreciation	690	337
	<u>3,612</u>	<u>13,914</u>

4. Net interest and other similar charges

	2008 £'000	2007 £'000
Interest payable on bank loans	3,614	-
Finance charges in respect of finance leases	16	7
Other	-	220
Interest payable from other group companies	-	10,054
	<u>3,630</u>	<u>10,281</u>
Other interest receivable and similar income	(84)	(302)
	<u>3,546</u>	<u>9,979</u>

5. Staff costs

Staff costs during the year were as follows:

	2008 £'000	2007 £'000
Wages and salaries	53,173	54,145
Social security costs	6,275	6,019
Other pension costs	1,280	1,103
	<u>60,728</u>	<u>61,267</u>

Notes to the financial statements

at 31 December 2008

The average number of employees of the group during the year was as follows:

	2008 No.	2007 No.
Management and administration	169	158
Sales and marketing	255	247
Operations	899	939
	<u>1,323</u>	<u>1,344</u>

For the current year directors emoluments have been borne by fellow group company 2e2 Holdings Limited. 2e2 Holdings Limited charges 2e2 Group Limited a management fee which incorporates directors' emoluments. Further details of the director emoluments are disclosed in the accounts of 2e2 Holdings Limited. Remuneration in respect of directors during the previous year was as follows:

	2008 £'000	2007 £'000
Fees	-	-
Emoluments	-	-
Pension contributions to money purchase pension schemes	-	-
	<u>-</u>	<u>-</u>
Payments to third parties for directors' services	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

The amounts set out above include remuneration in respect of the highest paid director as follows:

	2008 £'000	2007 £'000
Emoluments	-	-
Pension contributions to money purchase pension schemes	-	-
	<u>-</u>	<u>-</u>

During the year four directors participated in money purchase pension schemes, further details are disclosed in 2e2 Holdings Limited accounts (2007: four).

Notes to the financial statements

at 31 December 2008

6. Tax on profit on ordinary activities

a) *The tax charge/(credit) represents:*

	2008 £'000	2007 £'000
UK corporation tax	682	-
Overseas taxation	(530)	311
Adjustments in respect of prior years	561	(247)
Total current tax	713	64
Origination and reversal of timing differences	78	592
Effect of changes in tax rates on liability	(78)	309
Total deferred tax	-	901
Tax on profit on ordinary activities	713	965

b) *Factors affecting tax charge for the year*

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 28.5%. The differences are explained as follows:

	2008 £'000	2007 £'000
Profit on ordinary activities before tax	3,128	313
Profit on tax on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28.5% (2007: 30%)	891	94
<i>Effects of:</i>		
Expenses not deductible for tax purposes	312	1,172
Capital allowances in excess of depreciation	(1,091)	(2,681)
Increase/utilisation of tax losses	1,474	2,140
Differences in tax rates	(530)	(414)
Adjustments to tax charge in respect of previous years	561	(247)
Group relief received	(808)	-
Other short-term timing differences	(96)	-
Current tax charge for the year	713	64

In the financial year 2008, the UK corporation tax rate has reduced from 30% to 28.5%. This rate change will both affect the amount of future cash tax payments to be made by the company and will also reduce the size of the company's deferred tax asset.

Notes to the financial statements

at 31 December 2008

7. Profit for the financial period

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's loss for the period ended 31 December 2008 was £1.9m (2007 loss £1.9m).

8. Dividends

No dividends were paid or declared during the year (2007: £nil).

9. Intangible fixed assets

	<i>Group</i> <i>2008</i> <i>£'000</i>	<i>Company</i> <i>2008</i> <i>£'000</i>	<i>Group</i> <i>2007</i> <i>£'000</i>	<i>Company</i> <i>2007</i> <i>£'000</i>
Goodwill	146,871	-	93,448	-
<hr/>				
<i>Group</i>				
	<i>Purchased goodwill</i> <i>£'000</i>	<i>Goodwill</i> <i>£'000</i>	<i>Negative goodwill</i> <i>£'000</i>	<i>Total</i> <i>£'000</i>
<i>Cost:</i>				
At 1 January 2008	868	104,030	(2,772)	102,126
Additions (note 24)	-	57,813	-	57,813
Adjustments in respect of prior year acquisitions	-	30	-	41
Disposals (note 25)	-	1,405	-	1,405
At 31 December 2008	868	163,278	(2,772)	161,374
<i>Amortisation:</i>				
At 1 January 2008	(495)	(10,955)	2,772	(8,678)
Provided in the year	(161)	(5,576)	-	(5,737)
Disposals	-	(88)	-	(88)
At 31 December 2008	(656)	(16,619)	2,772	(14,503)
<i>Net book value:</i>				
At 31 December 2008	212	146,659	-	146,871
At 31 December 2007	373	93,075	-	93,448

The goodwill that has arisen on all acquisitions is being amortised evenly over the estimate of the useful economic life of 20 years.

Notes to the financial statements

at 31 December 2008

10. Tangible fixed assets

<i>Group</i>	<i>Freehold property £'000</i>	<i>Rental equipment £'000</i>	<i>Leasehold improvements £'000</i>	<i>Motor vehicles £'000</i>	<i>Computer equipment £'000</i>	<i>Total £'000</i>
<i>Cost:</i>						
At 1 January 2008	980	9,460	658	232	5,106	16,436
Acquisitions	1,454	-	167	-	11,120	12,741
Additions	-	8,790	937	93	2,844	12,664
Foreign exchange	-	-	153	-	337	490
Disposals	-	(4,670)	(117)	(103)	(374)	(5,264)
Disposal of subsidiary	(980)	(13,580)	(12)	-	-	(14,572)
At 31 December 2008	1,454	-	1,786	222	19,033	22,495
<i>Depreciation:</i>						
At 1 January 2008	20	1,462	312	57	2,875	4,726
Provided in the year	26	4,624	388	79	1,580	6,697
Foreign exchange	-	-	102	-	193	295
Disposals	-	(1,841)	(65)	(40)	(374)	(2,320)
Disposal of subsidiary	(31)	(4,245)	(2)	-	-	(4,278)
At 31 December 2008	15	-	736	96	4,274	5,120
<i>Net book value:</i>						
At 31 December 2008	1,439	-	1,050	126	14,759	17,375
At 31 December 2007	960	7,998	346	175	2,231	11,710

The net book value of fixed assets includes £1.4m (2007: £0.1m) for computer and other equipment in respect of assets held under finance leases and hire purchase contracts.

<i>Company</i>	<i>Computer equipment £'000</i>	<i>Total £'000</i>
<i>Cost:</i>		
At 1 January 2008	7	7
Additions	1	1
At 31 December 2008	8	8
<i>Depreciation:</i>		
At 1 January 2008	6	6
Provided in the year	1	1
At 31 December 2008	7	7
<i>Net book value:</i>		
At 31 December 2008	1	1
At 31 December 2007	1	1

Notes to the financial statements

at 31 December 2008

11. Fixed asset investments

<i>Company</i>	<i>Investment in subsidiary undertakings</i> <i>£'000</i>
At beginning and end of year	222

The company owns either directly or indirectly 100% of the ordinary share capital of the following principal subsidiary companies, the principal activities of which are the provision of computer services:

Incorporated in the United Kingdom (including the Channel Islands and the Isle of Man) and trading:

2e2 Limited	2e2 UK Limited
2e2 Services Limited	Compelsolve Limited
2e2 Solutions Limited	2e2 Data Management Limited
2e2 Offshore Limited	Compel Group Limited
Netstore Limited	2e2 Storage Limited

Incorporated in the Netherlands and trading:

2e2 Tradecom International B.V.	2e2 Dynomic B.V.
2e2 Group B.V.	2e2 Motifact Group B.V.
2e2 Yul Data Security B.V.	

Incorporated in Belgium and trading:

2e2 Motifact Service Management België N.V.

All subsidiaries are held indirectly with the exception of 2e2 Limited which is held directly.

The group has taken advantage of section 231 of the Companies Act 1985 and only disclosed information in respect of those undertakings whose results of financial position principally affect the financial statements.

12. Stocks

	<i>Group</i> <i>2008</i> <i>£'000</i>	<i>Company</i> <i>2008</i> <i>£'000</i>	<i>Group</i> <i>2007</i> <i>£'000</i>	<i>Company</i> <i>2007</i> <i>£'000</i>
Spare parts	3,194	-	3,528	-
Goods for resale	597	-	3,740	-
Short-term work in progress	1,581	-	808	-
	<u>5,372</u>	<u>-</u>	<u>8,076</u>	<u>-</u>

Notes to the financial statements

at 31 December 2008

13. Debtors

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2008</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade debtors	40,577	-	40,406	-
Amounts owed by group undertakings	-	14,120	-	3,682
Prepayments and accrued income	17,873	96	11,405	190
Deferred tax asset (see note 18)	3,644	-	4,385	-
	<u>62,094</u>	<u>14,216</u>	<u>56,196</u>	<u>3,872</u>

Included in the above are the following amounts that are due after more than one year:

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2008</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Deferred tax asset	3,644	-	4,385	-
	<u>3,644</u>	<u>-</u>	<u>4,385</u>	<u>-</u>

14. Creditors: amounts falling due within one year

	<i>Group</i>	<i>Company</i>	<i>Group</i>	<i>Company</i>
	<i>2008</i>	<i>2008</i>	<i>2007</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Bank loans	4,000	-	-	-
Trade creditors	25,194	67	26,307	351
Tax and social security	6,862	-	4,712	-
Accruals	13,974	-	8,067	2
Amounts due under finance leases	785	-	25	-
	<u>50,815</u>	<u>67</u>	<u>39,111</u>	<u>353</u>

Notes to the financial statements

at 31 December 2008

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

	<i>Group</i> <i>2008</i> <i>£'000</i>	<i>Company</i> <i>2008</i> <i>£'000</i>	<i>Group</i> <i>2007</i> <i>£'000</i>	<i>Company</i> <i>2007</i> <i>£'000</i>
Bank Loans	149,941	8,240	-	-
Amounts owed to group undertakings	12,677	-	122,795	-
Amounts due under hire purchase contracts	789	-	-	-
	<u>163,407</u>	<u>8,240</u>	<u>122,795</u>	<u>-</u>

The bank loans are secured by a fixed and floating charge over all the assets of the Group. The bank loans consist of the following facilities:

- Term Loan A – in the amount of £39.7 million is repayable in instalments. A total of £4 million is repayable within one year with the balance payable in instalments finishing on 30 June 2015. Interest is charged at the rate of LIBOR plus 2.25% to 3.00%.
- Term Loan B – in the amount of £37.5 million is repayable in a single instalment on 10 October 2016. Interest is charged at the rate of LIBOR plus 3.00% to 3.50%.
- Term Loan C – in the amount of £37.5 million is repayable in a single instalment on 10 October 2017. Interest is charged at the rate of LIBOR plus 4.00%.
- Revolving Facility – in the amount of £15 million is repayable in a single instalment on 30 September 2013. Interest is charged at the rate of LIBOR plus 2.25% to 3.00%.
- Mezzanine Facility – in the amount of £35.0 million is repayable in a single instalment on 10 October 2018. Interest is payable at the rate of LIBOR plus 10.50%. 5.50% of the interest is not due for payment and rolls up until 10 October 2018.

Amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate.

16. Deferred income

	<i>Group</i> <i>2008</i> <i>£'000</i>	<i>Company</i> <i>2008</i> <i>£'000</i>	<i>Group</i> <i>2007</i> <i>£'000</i>	<i>Company</i> <i>2007</i> <i>£'000</i>
Deferred income - within one year	<u>19,831</u>	<u>-</u>	<u>15,441</u>	<u>-</u>

Notes to the financial statements

at 31 December 2008

17. Borrowings

Borrowings are repayable as follows:

	<i>Group</i> <i>2008</i> <i>£'000</i>	<i>Company</i> <i>2008</i> <i>£'000</i>	<i>Group</i> <i>2007</i> <i>£'000</i>	<i>Company</i> <i>2007</i> <i>£'000</i>
<i>Within one year:</i>				
Bank and other borrowings	4,000	-	-	-
Finance leases	785	-	25	-
<i>After one and within two years:</i>				
Bank and other borrowings	4,000	-	-	-
Finance leases	416	-	-	-
<i>After two years and within five years:</i>				
Bank and other borrowings	17,800	-	-	-
Finance leases	374	-	-	-
<i>After five years:</i>				
Bank and other borrowings	144,635	8,240	-	-
Less: issue costs	(4,603)	-	-	-
	<u>167,407</u>	<u>8,240</u>	<u>25</u>	<u>-</u>

Bank and other borrowings repayable after five years comprise:

	<i>Group</i> <i>2008</i> <i>£'000</i>	<i>Company</i> <i>2008</i> <i>£'000</i>	<i>Group</i> <i>2007</i> <i>£'000</i>	<i>Company</i> <i>2007</i> <i>£'000</i>
Bank borrowings	131,587	8,240	-	-
Accrued interest	371	-	-	-
Amounts owed to group undertakings	12,677	-	-	-
	<u>144,635</u>	<u>8,240</u>	<u>-</u>	<u>-</u>

On 10 October 2008, the company and its subsidiaries entered into a cross guarantee in the amount of £165 million, in favour of its bankers in respect of the borrowings of the group.

Notes to the financial statements

at 31 December 2008

18. Deferred taxation

Deferred taxation provided for in the financial statements is set out below (see note 13):

	<i>Group</i> <i>2008</i> <i>£'000</i>	<i>Company</i> <i>2008</i> <i>£'000</i>	<i>Group</i> <i>2007</i> <i>£'000</i>	<i>Company</i> <i>2007</i> <i>£'000</i>
<i>Assets</i>				
Tax losses carried forward	3,644	-	4,385	-

The movement in the provisions for deferred tax is as follows:

	<i>Group and company</i> <i>£'000</i>
As at 1 January 2008	4,385
Utilised during the year	(1,369)
Adjustments in respect of prior years	1,369
Other adjustments	(741)
As at 31 December 2008	3,644

Based on current contracted revenues and consequent visibility of profits at 2e2 Services, a deferred tax asset has been recognised to reflect the recoverability of historic trading losses in this entity. The adjustment of £741,000 relates to a deferred tax asset in the balance sheet of Hamilton Rentals Limited, a company which was disposed of during the year.

Unprovided deferred tax

Unprovided deferred taxation is set out below:

	<i>Group</i> <i>2008</i> <i>£'000</i>	<i>Company</i> <i>2008</i> <i>£'000</i>	<i>Group</i> <i>2007</i> <i>£'000</i>	<i>Company</i> <i>2007</i> <i>£'000</i>
<i>Assets</i>				
Depreciation in excess of capital allowances	797	12	11,698	12
Other short-term timing differences	849	-	1,063	2
Tax losses carried forward	21,785	285	7,827	57
Total tax losses carried forward	23,431	297	20,588	71

Notes to the financial statements

at 31 December 2008

19. Share capital

Group and Company

	2008 £'000	2007 £'000
<i>Authorised:</i>		
30,081,367 A ordinary shares of £0.04 each	1,203	1,203
32,666,583 B ordinary shares of £0.04 each	1,307	1,307
	<u>2,510</u>	<u>2,510</u>
<i>Allotted, called up and fully paid:</i>		
1,275,000 A ordinary shares of £0.04 each	51	51
1,362,250 B ordinary shares of £0.04 each	54	54
	<u>105</u>	<u>105</u>

Share option reserve

The group's parent company, 2e2 Holdings Limited operates a share option scheme which is open to all employees of the group at the discretion of the board of 2e2 Holdings Limited. The group records a charge in accordance with FRS 20 for options to acquire shares of 2e2 Holdings Limited that are granted to employees of the group. In the scheme the options typically vest based on the following pattern, 50% on the second anniversary of the date of grant and a further 25% on the third and fourth anniversary; the options also vest on the listing on a public market or the sale of 2e2 Holdings Limited. The options lapse if they remain unexercised after 10 years from the date of grant. The options also lapse following the employee leaving the group. There were 44,250 share options outstanding at the year end (2007: 48,675). The weighted average share price at the date of exercise for share options issued during the year was 100p.

The fair values were calculated using a Black-Scholes-Merton model. The inputs into the model were as follows:

	2008	2007
Weighted average share price	£1.00	£1.00
Weighted average exercise price	£1.00	£1.00
Expected volatility	35.53%	35.53%
Risk-free rate	4.25%	4.25%
Expected dividend yield	nil	nil

Expected volatility was determined using as a base the share price movements recorded over the same period as the vesting period (from grant date to vesting date) and taking into account any specific factors impacting during the period. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

There were 44,250 outstanding at the year end. No options were issued during the year. During the year no options were exercised or cancelled. During the year 4,425 options lapsed. For the share options outstanding as at 31 December 2008, the weighted average remaining contractual life is 8 years (2007: 9).

The group recognised total charges of £2,310 related to equity-settled share-based payment transactions during the year (2007: £3,969).

Notes to the financial statements

at 31 December 2008

20. Share premium account and reserves

<i>Group</i>	<i>Share premium account £'000</i>	<i>Other reserves £'000</i>	<i>Profit and loss account £'000</i>
At 1 January 2008	265	458	2,423
Retained profit for the year	-	-	2,418
FRS 20 share option charges	-	-	(2)
Currency translation differences on foreign currency net investments	-	-	(4,290)
At 31 December 2008	265	458	549
<i>Company</i>			
At 1 January 2008	265	51	3,769
Retained profit for the year	-	-	1,942
At 31 December 2008	265	51	5,711

21. Net cash inflow from operating activities

	<i>2008 £'000</i>	<i>2007 £'000</i>
Operating profit	10,069	10,292
Cash impact of fundamental restructuring	(3,395)	-
Amortisation of goodwill	5,737	4,244
Depreciation	6,697	4,989
(Increase)/decrease in stock	1,946	(133)
(Increase)/decrease in debtors	(6,258)	(1,899)
Increase/(decrease) in creditors	6,412	7,007
Loss on sale of fixed assets	16	29
Net cash inflow from operating activities	21,224	24,529

Notes to the financial statements

at 31 December 2008

22. Reconciliation of net cash flow to movement in net debt

	2008 £'000	2007 £'000
Increase/(decrease) in cash in the year	(8,085)	7,419
Cash flow from financing	(154,870)	86
Cash flow from amounts due to Parent	115,374	(46,208)
Change in net debt resulting from cash flows	(47,581)	(38,703)
Finance leases acquired with subsidiaries	(900)	-
New finance leases	650	-
Unpaid interest and management charges accrued in the year	-	(11,068)
Non-cash movements	(5,627)	-
Difference on translation	635	-
	52,823	(49,771)
Net debt at start of year	(111,651)	(61,880)
Net debt at end of year	(164,474)	(111,651)

23. Analysis of changes in net debt

	At 1 January 2008 £'000	Cash flow £'000	Acquisitions £'000	Other non-cash movements £'000	At 31 December 2008 £'000
Cash at bank	11,168	(8,085)	-	635	3,718
Borrowings from parent	(122,794)	115,374	-	(5,256)	(12,676)
Long term loans	-	(154,221)	-	280	(153,941)
Finance leases	(25)	(650)	(900)	-	(1,575)
	(111,651)	(47,582)	(900)	(4,341)	(164,474)

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at 31 December 2008

24. Acquisitions

On 4 October 2008 the group acquired the entire share capital of Netstore plc for a consideration of £63.1m including acquisition costs. An analysis of the acquisition is as follows:

	<i>Book value</i> £'000	<i>Accounting policy alignments</i> £'000		<i>Fair value adjustments</i> £'000		<i>Provisional fair value</i> £'000
Tangible fixed assets	14,338	(770)	(a)	(826)	(b)	12,742
Debtors	9,335	(863)	(c)	(805)	(d)	7,667
Net borrowings	(385)	-		-		(385)
Creditors	(14,783)	-		-		(14,783)
Total assets	8,505	(1,633)		(1,631)		5,241
Goodwill arising on acquisition						57,813
						63,054
<i>Satisfied by:</i>						
Cash						58,614
Costs associated with the acquisition						4,440
						63,054

Goodwill arising on the above acquisition has been capitalised. The results for Netstore plc for the period from 1 July 2007 to 3 October 2008 and for its preceding financial year ended 30 June 2007, on the basis of accounting policies prior to acquisition, are set out below:

	<i>Period from</i> <i>1 July 2007</i> <i>to 3 October</i> <i>2008</i> £'000	<i>Year ended</i> <i>30 June</i> <i>2007</i> £'000
Turnover	47,399	37,600
Cost of sales	(27,044)	(18,763)
Gross profit	20,355	18,837
Operating expenses	(21,024)	(18,918)
Exceptional operating expenses	(2,260)	-
Operating loss	(2,919)	(81)
Fundamental exceptional items	(5,684)	-
Interest	(239)	(108)
Profit before taxation	(8,842)	(189)
Taxation	(2,601)	750
Profit after taxation	(11,443)	561

Notes to the financial statements

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Adjustments:

- (a) Staff costs on development projects expensed as incurred rather than capitalised over the expected life of projects
- (b) a reassessment of the carrying value of fixed asset values based on management's expected realisable value
- (c) commissions expected as paid rather than spread over the life of the contracts to which they related
- (d) a reassessment of the revenue recognised on part complete projects

These fair values are provisional and will be reviewed in the future to ensure that they remain reasonable.

There were no recognised gains and losses as at 4 October 2008 and 30 June 2007 other than the profit recognised above.

On 27 March 2007 the group acquired the entire share capital of Compel Group plc for a consideration of £55.2m including acquisition costs. An analysis of the acquisition is as follows:

	<i>Book value £'000</i>	<i>Accounting policy alignments £'000</i>		<i>Fair value adjustments £'000</i>		<i>Provisional fair value £'000</i>
Tangible fixed assets	11,344	(1,279)	(a)	(3,343)	(b)	6,722
Stock	2,494	-		-		2,494
Debtors	14,637	(462)	(c)	(219)	(d)	13,956
Cash	1,407	-		-		1,407
Creditors	(10,148)	(2,962)	(e)	(2,401)	(f)	(15,511)
Total assets	19,734	(4,703)		(5,963)		9,068
Goodwill arising on acquisition						46,133
						55,201
<i>Satisfied by:</i>						
Cash						53,212
Costs associated with the acquisition						1,989
						55,201

The results for Compel Group plc for the period from 1 July 2006 to 27 March 2007 and for its preceding financial year ended 30 June 2006, on the basis of accounting policies prior to acquisition, are set out below:

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at 31 December 2008

	<i>Period from 1 July 2006 to 27 March 2007 £'000</i>	<i>Year ended 30 June 2006 £'000</i>
Turnover	62,394	92,647
Cost of sales	(45,679)	(68,674)
Gross profit	16,715	23,973
Operating expenses	(16,008)	(21,816)
Operating profit	707	2,157
Interest	70	101
Profit before taxation	777	2,258
Taxation	(233)	(824)
Profit after taxation	544	1,434

Goodwill arising on the above acquisition has been capitalised.

Adjustments:

- (a) increase in provision against value of rentals assets in product lines that are being phased out from the service offering or are slow moving.
- (b) reflects a reduction in the carrying value of fixed assets based on managements expected realisable value.
- (c) an adjustment in the recognition of sub-contract service costs to spread them evenly over the term of the service contracts
- (d) requirement for credit note provision following a review of revenue recognised
- (e) an adjustment in recognition of service revenues to spread them evenly over the term of the services contracts.
- (f) a reassessment of the provision for property dilapidations and cost accruals in line with the group accounting policies

These fair values are provisional and will be reviewed in the future to ensure that they remain reasonable.

There were no recognised gains and losses as at 27 March 2007 and 30 June 2006 other than the profit recognised above.

25. Disposals

During the year the group disposed of its interest in Hamilton Rentals Limited and its associated companies. Group profits include a loss of £0.9m earned by Hamilton Rentals Limited and its associated companies up to its date of disposal on 15 July 2008.

Net assets disposed of were as follows:

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	£'000
Tangible fixed assets	10,294
Stock	758
Debtors	8,080
Cash	1,303
Creditors	(9,345)
Net assets	11,090
Negative goodwill	(1,317)
Loss on disposal	(2,292)
	7,481
<i>Satisfied by:</i>	
Cash	8,650
Fees	(250)
Other non-cash costs of disposal	(919)
	7,481

Hamilton Rentals had been acquired as part of the purchase of Compel Group in 2007. The overall acquisition resulted in goodwill being created and capitalised. The consideration apportioned to Hamilton Rentals was less than the net assets attributed to that part of the business creating negative goodwill which has been released on the disposal of the business.

26. Capital commitments

The Group had capital commitments at 31 December 2008 of £0.4 m (2007: £0.8m).

27. Contingent liabilities

There were no contingent liabilities at 31 December 2008 (2007: £nil).

28. Leasing commitments - group

Operating lease payments amounting to £1.6m (2006: £1.4m) are due within one year. The leases to which these amounts relate expire as follows:

	<i>Land and Buildings</i>	<i>Other 2008</i>	<i>Land and Buildings</i>	<i>Other 2007</i>
	£'000	£'000	£'000	£'000
In one year or less	535	1,139	658	958
Between one and five years	1,464	1,607	1,293	2,177
In five years or more	1,255	3	590	-
	3,254	2,748	2,541	3,135

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at 31 December 2008

29. Ultimate holding company

The company's ultimate holding company is 2e2 Holdings Limited, a company incorporated in the United Kingdom. 2e2 Holdings Limited is the only group which consolidates these accounts. Accounts for the ultimate holding company are available from its registered address of The Mansion House, Benham Valence, Newbury, RG20 8LU. The company's immediate holding company is 2e2 Investments Limited.

30. Related parties

The group has taken advantage of the exemption available to wholly owned subsidiary undertakings under Financial Reporting Standard Number 8 ("Related Party Transactions"), and accordingly has not provided details of its transactions with entities forming part of the 2e2 group.