



DX Network Services Limited

**Report and financial statements
for the year ended 30 June 2006**

Company number 5026914

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DX Network Services Limited

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DX Network Services Limited

Directors and advisers

Directors

James Greenbury
Paul Kehoe

Company secretary

Elaine Pratt

Auditors

Deloitte & Touche LLP
Reading

Bankers

Bank of Scotland
New Uberior House
11 Earl Grey Street
Edinburgh EH3 9NB

Barclays Bank plc
Guildford Friary
Guildford
GU1 4AG

Solicitors

Stevens & Bolton LLP
DX2423 Guildford 1

The Billings
Guildford
Surrey GU1 4YD

Registered office

DX1 Iver

DX House
Ridgeway
Iver
Buckinghamshire SL9 0JQ

Registered number

5026914

DX Network Services Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2006.

Principal activity

The company's continuing activity is the provision of mail services.

Review of the business

DX Network Services Limited ('DX') is the UK's leading independent provider of early morning, next day business to business mail and parcel services; 17,000 companies use the Document Exchange or DX mail and parcel services to send time critical mail.

DX handles over one million items every working day, operating a nationwide, end-to-end collection and delivery network across England, Wales, Scotland, Northern Ireland, the Channel Islands, the Isle of Man and the Isle of Wight.

On 23 August 2006, it was announced that the offer made by Mail Acquisitions Limited to acquire the whole of the share capital of the parent company had been declared unconditional. As a result, the group is now owned by the Mail Acquisitions group, which has also acquired Secure Mail Services Limited ('SMS'), a specialist mail company supplying timely, secure and bespoke nationwide collection and delivery solutions for valuable mail and small parcels to a wide range of businesses.

The acquisition represents a positive and confident step towards securing an exciting new future under a new ownership structure. There is a compelling strategic logic in bringing together DX and SMS to create the leading independent end-to-end UK postal operator.

The combination of DX and SMS will deliver significant benefits such as:

- further improvement to the range and quality of services offered to customers;
- more extensive coverage through an expanded delivery network; and
- increased volumes for key business partners and suppliers and the creation of new opportunities for employees.

In addition, in the wake of the recent industry deregulation, the enlarged group will be well positioned as customers move to use alternatives to Royal Mail.

The enlarged group will have a combined turnover of £175 million, approximately 1,600 employees and will handle over 270 million items of mail per year.

The main commercial risks that the business currently faces are:

Risk	How the risk is managed
Competition from Royal Mail and other mail providers	By providing high levels of service quality at competitive prices and maintaining strong relationships with major customers. The recently announced acquisition by Mail Acquisitions Limited provides the opportunity of offering a wider range of competitive services to existing and new customers.
The challenges of operating in a highly regulated environment	By implementing processes within the network and a rigorous programme of mail integrity audits.

DX remains committed to ensuring that it acts as a good neighbour in all its activities. Given the nature and scope of its business, DX has few practices which would impact the environment.

In early 2006 the group's environmental policy was reviewed and subsequently endorsed by the main board – this can be found on the DX website.

Results and dividends

The profit for the period after taxation was £12.6 million (2005: £12.1 million), after charging goodwill amortisation of £4.2 million (2005: £4.2 million).

DX Network Services Limited

Directors' report

An interim dividend of £12 million (2005: £nil) was paid on 2 June 2006. No final dividend will be paid (2005: £nil).

Retained profit for the year, after dividends, was £0.6 million (2005: £12.1 million)

Share capital

The company's authorised and issued share capital are shown in note 16 to the financial statements.

Directors

The directors who served during the year were as follows:

Peter Brougham		resigned 11 November 2005
Paul Kehoe	Chief Executive	appointed 14 November 2005
Julia Marsan		appointed 7 March 2006
Michael-John Saunders		resigned 24 February 2006
David Sibbick		appointed 7 March 2006

Julia Marsan and David Sibbick resigned as directors on 30 August 2006. James Greenbury was appointed as a director on the same date.

Paul Kehoe was a director of the parent company, DX Services Limited, at the year end, and his interests in the share capital of that company are shown in the annual report and accounts of DX Services Limited.

The beneficial interests of the other directors at 30 June 2006 in the shares of the parent company at that date were as follows:

	30 June 2006 Shares	30 June 2005 or date of appointment Shares
Julia Marsan	-	-
David Sibbick	1,438	1,438

The interests shown above do not include David Sibbick's potential entitlements under the Long term Co-Investment plan, details of which are set out below.

Consequent upon the acquisition of the company by Mail Acquisitions Limited, all of the directors have disposed of their interests in the parent company's shares. Except as shown above, no director had any beneficial interest in the shares of the company, and no right to subscribe for shares in, or debentures of, the company was granted to or exercised by any director or member of their immediate family during the year.

The table below shows, as at their date of appointment and 30 June 2006, the number of shares in the parent company conditionally awarded to each of the directors who were not also directors of the parent company under the Restricted Share plan, the number of shares they had committed to the Long Term Co-Investment plan (including the restricted shares), and the maximum number of matching shares (before tax) they could have become entitled to as a consequence.

	Restricted Share plan		Long Term Co-Investment plan		
	Number	Earliest vesting date	Number of shares committed	Maximum matching shares	Earliest vesting date
Julia Marsan	-	N/A	-	-	N/A
David Sibbick	3,563	1 November 2007	4,563 438	13,689 1,314	September 2007 September 2008

Following the acquisition of the parent company's shares by Mail Acquisitions Limited, David Sibbick received 3,868 matching shares, the number of shares being calculated in accordance with the plan rules.

DX Network Services Limited

Directors' report

The table below shows, as at their date of appointment and 30 June 2006, the number of options under the DX Services Sharesave scheme granted to each of the directors who were not also directors of the parent company:

	No of options	Exercise price (pence)
Julia Marsan	-	N/A
David Sibbick	3,759	252.00
	<u>3,759</u>	

Following the acquisition of the parent company's shares by Mail Acquisitions Limited, David Sibbick exercised his options in respect of 2,015 shares in the parent company.

Employee involvement and communication

DX employs a culturally diverse workforce representative of the local population in the areas where we operate. DX is committed to providing equal opportunities of employment to all staff, regardless of their gender, nationality, colour or creed. The company's policies on recruitment, training, career development and promotion are based solely on the ability of the individual and the needs of the group's business.

Disabled persons are given equal treatment with the able bodied. For employees who have become disabled after joining the company, every effort is made to enable them to continue in employment and suitable retraining and/or an offer of alternative employment is provided where possible.

DX has a stakeholder pension scheme, and actively encourages participation in the scheme. The company continues to invest in its people with a dedicated specialist in reward structures and an ongoing programme of performance management, learning and development. Until the acquisition by Mail Acquisitions Limited, DX also had an employee Sharesave programme.

Each member of the senior management team takes personal responsibility for communicating with a part of the business. Employees are given opportunities to talk candidly with a member of the senior management team, including open forums with each night shift at every service centre.

DX wishes to have the considered views of employees over a wide range of subjects and thus encourages an active interest in group activities at all levels. This aim is achieved through a fully representative 'Employee Partnership' programme, which ensures two way communications and employee involvement. The company has redesigned its communication and consultation forums, holding representative elections with considerable success.

Charitable and political donations

The company provides support to Vision Aid Overseas ('VAO') by collecting and distributing spectacles within the UK for reconditioning and onward transportation to Africa for reuse. Financial support was provided to VAO in the form of payment of the costs of printing its annual report and other projects, amounting to £11,555 (2005: £nil).

Other charitable donations in the year comprised sponsorship of the Iver Educational Trust (£3,000) and the provision of prizes at the Headway Cardiff golf day (£250). No charitable donations were made in 2005.

No payments were made to political parties.

Payments to suppliers

It is the company's policy to make payments to suppliers in accordance with agreed terms, provided that the supplier has performed in accordance with agreed terms and conditions. Creditor days at 30 June 2006 were 7.4 days (2005: 8.0 days).

Directors' report

Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

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

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

The company has approved an elective resolution under S379A (as amended) of the Companies Act 1985 to dispense with the requirement to hold an annual general meeting, and the need to approve the financial statements and the reappointment of the auditors thereat.

Directors' responsibilities

The directors are responsible for preparing the annual report including the financial statements. The directors have chosen to prepare the financial statements for the company in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and of the profit or loss of the company for that period, and comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed; and
- (d) 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 company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements.

Directors' and officers' insurance and indemnities

The company maintains appropriate directors' and officers' liability insurance for the benefit of the directors. In addition, throughout the year and up to the date of this report, indemnities have been in force under which the company has agreed to indemnify the directors and certain other officers, to the extent permitted by law and the company's Articles of Association, against all costs, charges, losses and liabilities that they may incur in the execution of their duties, powers, authorities and discretions, as directors of the company, or any other company of which, at the request of the company, they are directors or officers. Copies of these indemnities are kept at the company's registered office and are open for inspection by any member of the company without charge.

By order of the board



Elaine Pratt
Company Secretary

3 November 2006

DX Network Services Limited

Independent auditors' report to the members of DX Network Services Limited

We have audited the financial statements of DX Network Services Ltd for the year ended 30 June 2006 which comprise the profit and loss account, the balance sheet, and the related notes 1 to 22. 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

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 law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also 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 the other information contained in the annual report for the above year as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 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.

DX Network Services Limited

Independent auditors' report to the members of DX Network Services Limited

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 30 June 2006 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Reading
United Kingdom

3 November 2006

DX Network Services Limited**Profit and loss account
For the year ended 30 June 2006**

	Notes	2006 £m	2005 £m
Turnover:			
Document Exchange		78.1	81.0
Parcels		43.1	41.1
Mail		4.4	4.8
	2	125.6	126.9
Operating costs:			
Before exceptional items and goodwill amortisation		(98.4)	(97.0)
Exceptional items	6	-	(2.0)
Goodwill amortisation		(4.2)	(4.2)
Total operating costs	3	(102.6)	(103.2)
Operating profit:			
Before exceptional items and goodwill amortisation		27.2	29.9
Exceptional items and goodwill amortisation		(4.2)	(6.2)
Total operating profit		23.0	23.7
Net interest payable	7	(2.8)	(4.1)
Profit on ordinary activities before taxation		20.2	19.6
Tax on profit on ordinary activities:			
Before exceptional items and goodwill amortisation		(7.6)	(8.0)
Exceptional items and goodwill amortisation		-	0.5
Total	8	(7.6)	(7.5)
Profit on ordinary activities after taxation:			
Before exceptional items and goodwill amortisation		16.8	17.8
Exceptional items and goodwill amortisation		(4.2)	(5.7)
Transferred to reserves	17	12.6	12.1

All results are derived from continuing operations.

There are no other recognised gains or losses arising during the current financial period other than those shown in the profit and loss account. Accordingly, a Statement of recognised gains and losses has not been presented.

DX Network Services Limited**Balance sheet
as at 30 June 2006**

	Notes	2006 £m	2005 £m
Fixed assets:			
Intangible fixed assets	9	75.8	80.0
Tangible fixed assets	10	10.7	14.3
Investments	11	4.3	5.4
		90.8	99.7
Current assets:			
Debtors	12	26.2	25.2
Cash at bank and in hand		1.2	2.9
		27.4	28.1
Creditors: amounts falling due within one year	13	(52.5)	(51.0)
Net current liabilities		(25.1)	(22.9)
Total assets less current liabilities		65.7	76.8
Creditors: amounts falling due after more than one year	14	(50.3)	(60.8)
Provisions for liabilities and charges	15	(1.7)	(2.9)
Net assets		13.7	13.1
Capital and reserves:			
Called up share capital	16	1.0	1.0
Profit and loss account	17	12.7	12.1
Equity shareholders' funds	17	13.7	13.1

These financial statements were approved by the board of directors on 3 November 2006 and signed on its behalf by:



Paul Kehoe

DX Network Services Limited

Notes to the financial statements for the year ended 30 June 2006

1 Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

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

Group financial statements

The company is a wholly owned subsidiary of DX Services Limited which is incorporated in Great Britain and registered in England and Wales, and which has prepared consolidated financial statements to 30 June 2006. Therefore as the company is exempt from the obligation to prepare and deliver group financial statements, the financial statements only present information about the company as an individual undertaking, not about its group.

Cash flow statement

Under Financial Reporting Standard 1 (revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that the ultimate parent company includes the company in its own consolidated financial statements, which include a cash flow statement, and are publicly available.

Goodwill

Goodwill is the surplus of cost over the net asset value attributed to businesses acquired. Goodwill arising on the acquisition of businesses is capitalised and amortised on a straight line basis over the shorter of its estimated economic useful life and 20 years.

Investments

Shares in, and loans to, subsidiary companies are valued at cost less provision for impairment.

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment. Depreciation of fixed assets is on a straight line basis calculated at rates to write off the cost less estimated residual value of each asset over the term of its expected useful life.

The following rates are used:

% per annum

Land and buildings:

Land	Nil
Freehold buildings	2 - 2.5
Short leasehold properties	4 - 20
Plant and machinery	10 - 25

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial information. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

**Notes to the financial statements
for the year ended 30 June 2006**

**1 Accounting policies
(continued)**

Leases

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the lease.

Pension costs

The company is a member of a group defined contribution pension scheme. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either creditors or debtors in the balance sheet.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at the rates ruling at the year end. All translation differences are dealt with in the profit and loss account.

Share-based payments

The parent company issues equity-settled share-based payments to certain employees. The fair value is measured at the date of the grant, and is expensed on a straight line basis over the vesting period, based on the company's estimate of the number of shares that will eventually vest. The amount relating to employees of the company is charged in the profit and loss account and included as a liability on the assumption that payments will be made to the parent company for these share-based payments.

The company adopted FRS 20 in advance of its required implementation date.

Turnover

Turnover represents the value of sales, apportioned over the period to which it relates after excluding trade discounts, value added tax and similar sales related taxes.

Document Exchange subscription income invoiced in advance is deferred and recognised as turnover over the period in which the related service is provided. Deferred subscription income is included in the balance sheet as deferred income within creditors: amounts falling due within one year.

All other turnover is recognised as it arises.

2 Segmental information

The directors consider there to be only one class of business, being the provision of mail services, and one material geographical segment, being the United Kingdom.

DX Network Services Limited

Notes to the financial statements for the year ended 30 June 2006

3 Operating costs

	2006 £m	2005 £m
Other external charges – excluding exceptional items	62.8	61.3
Other external charges – exceptional items	-	1.3
Other external charges - total	62.8	62.6
Staff costs – excluding exceptional items	25.9	25.5
Staff costs – exceptional items	-	0.7
Staff costs – total (see note 5)	25.9	26.2
Depreciation of property, plant and equipment - owned	5.2	5.3
Hire of plant – other rentals	0.7	0.4
Other operating lease rentals (including land and buildings)	3.8	4.0
Provision against amounts owed by subsidiary undertaking	-	0.5
Goodwill amortisation	4.2	4.2
Operating costs – excluding exceptional items and goodwill amortisation	98.4	97.0
Operating costs – exceptional items and goodwill amortisation	4.2	6.2
Total operating costs	102.6	103.2

Auditors' remuneration is included in a group management charge of £2.6 million (2005: £1.8 million), which is included in other external charges. The amount relating to audit services to the company is not separately identifiable.

4 Directors' emoluments

Total remuneration:

	2006 £000	2005 £000
Emoluments	81	213
Cost of contributions to defined contribution pension schemes	3	4
	84	217

	2006 No	2005 No
The number of directors accruing benefits under money purchase schemes in each year was:	4	2

Highest paid director:

	2006 £000	2005 £000
Emoluments	53	132
Cost of contributions to defined contribution pension schemes	3	-
	56	132

The emoluments above were paid directly by the company. Other directors' emoluments were paid by the parent company and included in a group management charge. Total directors' emoluments paid in this way amounted to £924,000 (2005: £404,000).

DX Network Services Limited**Notes to the financial statements
for the year ended 30 June 2006****5 Staff costs (including directors)**

	2006 £m	2005 £m
Wages and salaries	23.3	23.5
Social security costs	2.1	2.2
Other pension costs	0.3	0.4
	<u>25.7</u>	<u>26.1</u>
Equity-settled share-based payment costs	0.2	0.1
	<u>25.9</u>	<u>26.2</u>

Average number of persons employed (including directors):

	2006 No	2005 No
Sales and marketing	116	124
Network	1,039	1,099
Management and administration	114	124
	<u>1,269</u>	<u>1,347</u>

6 Exceptional items

	2006 £m	2005 £m
Demerger costs	-	<u>2.0</u>

During the previous period the company incurred £2.0 million of costs in connection with the demerger of the business from the Hays plc group.

7 Net interest payable

	2006 £m	2005 £m
Interest payable and similar charges:		
Group interest payable	2.9	2.6
Hays group loan note	-	1.8
Total interest payable and similar charges	<u>2.9</u>	<u>4.4</u>
Interest receivable:		
Bank deposits	0.1	0.1
Group interest receivable	-	0.1
Hays group companies	-	0.1
Total interest receivable	<u>0.1</u>	<u>0.3</u>
Net interest payable	<u>2.8</u>	<u>4.1</u>

DX Network Services Limited**Notes to the financial statements
for the year ended 30 June 2006****8 Tax on profit on ordinary activities****(a) Analysis of charge in period**

	2006 £m	2005 £m
Current tax:		
United Kingdom corporation tax	8.8	8.9
Deferred tax	(1.2)	(1.4)
Tax on profit on ordinary activities	7.6	7.5

The exceptional item in 2005 gave rise to a tax credit included above of £0.5 million.

(b) Factors affecting the tax charge for period

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	2006 £m	2005 £m
Profit before tax	20.2	19.6
Profit on ordinary activities before tax at the standard rate of UK corporation tax of 30% (2005: 30%)	6.0	5.9
Factors affecting charge for year:		
Depreciation and other amounts written off fixed assets for year in excess of capital allowances	1.2	1.4
Goodwill amortisation not eligible for tax relief	1.3	1.3
Other	0.3	0.3
Total actual amount of current tax	8.8	8.9

9 Intangible fixed assets

	Goodwill £m
At 30 June 2005 and 30 June 2006	84.2
Amortisation:	
At 30 June 2005	4.2
Charge for the period	4.2
At 30 June 2006	8.4
Net book value:	
At 30 June 2006	75.8
At 30 June 2005	80.0

DX Network Services Limited**Notes to the financial statements
for the year ended 30 June 2006****10 Tangible fixed assets**

	Freehold land and buildings £m	Short leasehold land and buildings £m	Plant and machinery £m	Total £m
Cost:				
At 30 June 2005	0.3	5.3	31.5	37.1
Additions	-	0.5	1.2	1.7
Disposals	-	-	(0.1)	(0.1)
At 30 June 2006	0.3	5.8	32.6	38.7
Depreciation:				
At 30 June 2005	0.1	3.3	19.4	22.8
Charge for the year	-	0.6	4.6	5.2
At 30 June 2006	0.1	3.9	24.0	28.0
Net book value:				
At 30 June 2006	0.2	1.9	8.6	10.7
At 30 June 2005	0.2	2.0	12.1	14.3

11 Investments

	Shares in subsidiary companies £m	Loans to subsidiary companies £m	Total £m
Cost:			
At 30 June 2005	4.3	1.1	5.4
Reduction in the period	-	(1.1)	(1.1)
At 30 June 2006	4.3	-	4.3
Provisions:			
At 30 June 2005 and 30 June 2006	-	-	-
Net book value:			
At 30 June 2006	4.3	-	4.3
At 30 June 2005	4.3	1.1	5.4

At 30 June 2006 DX Network Services Limited owned directly 100% of each class of issued shares of the following mail service companies:

DX Network Services Ireland Limited (registered and operates in the Republic of Ireland)
DX Electronic Services Limited

Each of these companies is registered and operates in England and Wales unless otherwise stated.

DX Network Services Limited**Notes to the financial statements
for the year ended 30 June 2006****12 Debtors**

	2006 £m	2005 £m
Trade debtors	20.9	18.4
Amounts owed by parent undertaking	0.6	-
Other debtors	0.1	1.0
Prepayments and accrued income	4.6	5.8
	26.2	25.2

13 Creditors: amounts falling due within one year

	2006 £m	2005 £m
Trade creditors	1.5	1.7
Amounts owed to parent undertaking	0.3	0.4
Amounts owed to subsidiary undertakings	-	0.1
Corporation tax	5.4	4.7
Other taxes and social security costs	3.0	2.9
Other creditors	1.2	1.8
Accruals	8.7	8.2
Deferred income	32.4	31.2
	52.5	51.0

14 Borrowings

	2006 £m	2005 £m
Amounts falling due after more than one year:		
Amounts owed to parent undertaking	48.7	59.2
Amounts owed to subsidiary undertakings	1.6	1.6
	50.3	60.8

The amounts owed to group undertakings bear interest at LIBOR-based market rates, and are repayable no earlier than 6 September 2009.

15 Provisions for liabilities and charges**Deferred tax**

	2006 £m	2005 £m
At beginning of year	2.9	4.3
Profit and loss account	(1.2)	(1.4)
At 30 June	1.7	2.9

Deferred tax provided in the financial statements comprises:

	2006 £m	2005 £m
Accelerated capital allowances	2.0	3.2
Other timing differences	(0.3)	(0.3)
	1.7	2.9

DX Network Services Limited**Notes to the financial statements
for the year ended 30 June 2006****16 Called up share capital****Authorised:**

	No (000)	2006 £000	No (000)	2005 £000
Ordinary shares of 1p each	150,000	1,500	150,000	1,500

Allotted, called up and fully paid:

	No (000)	2006 £000	No (000)	2005 £000
Ordinary shares of 1p each	100,000	1,000	100,000	1,000

17 Equity shareholders' funds

	Called up share capital £m	Profit and loss account £m	Total £m
On incorporation	-	-	-
New shares issued	1.0	-	1.0
Profit for the year	-	12.1	12.1
At 30 June 2005	1.0	12.1	13.1
Profit for the year	-	12.6	12.6
Dividends paid to parent company	-	(12.0)	(12.0)
At 30 June 2006	1.0	12.7	13.7

18 Financial commitments

	2006 £m	2005 £m
Capital expenditure:		
Contracted but not provided for	-	0.1
Annual commitments under operating leases:		
Land and buildings – leases which expire:		
Within one year	0.2	0.3
Between two and five years	1.0	0.9
After five years	1.6	1.5
	2.8	2.7
Other – leases which expire:		
Between two and five years	0.4	0.3

19 Contingencies

The company has entered into a bank guarantee facility in respect of its performance under its licence to provide regulated mail services, and in respect of property leases. The maximum liability under this facility at 30 June 2006 amounts to £3.1 million (2005: £1.0 million).

The company has provided a cross guarantee in respect of amounts outstanding under the group's UK bank facilities. No amounts were outstanding under these facilities at 30 June 2006 (2005: £nil).

**Notes to the financial statements
for the year ended 30 June 2006**

**19 Contingencies
(continued)**

The company has also provided a cross guarantee in respect of amounts outstanding under the ultimate parent undertaking's £90 million floating rate borrowing facility, of which £62 million was outstanding at 30 June 2006 (2005: £63 million).

No provisions are required or have been made in respect of these contingencies since, in the opinion of the directors, they are not expected to result in financial loss for the company.

20 Related party transactions

During the period, amounts totalling £28,985 (£2005: £8,640) were charged, on an arms length basis, by the wife of Michael-John Saunders in respect of IT consultancy services, of which £nil (2005: £2,400) was outstanding at the year end.

As permitted by FRS 8 'Related party disclosures', the financial statements do not disclose transactions with the ultimate parent company and fellow subsidiaries.

21 Post balance sheet events

Consequent upon the acquisition of the ultimate parent company by Mail Acquisitions Limited, the company entered into an accession agreement with, inter alia, the Governor and Company of the Bank of Scotland and Mail Acquisitions Limited, under which the company jointly and severally guarantees the borrowings under a facility agreement with the Governor and Company of the Bank of Scotland.

On 19 October 2006, £545,000 of the £550,000 owed by a subsidiary undertaking was settled by the issue of one ordinary share of £1 at a premium of £544,999. As at 30 June 2006, a provision of £519,000 had been made against the amount owed by the subsidiary undertaking.

22 Ultimate parent undertaking and ultimate controlling party

In the opinion of the directors, the company's ultimate parent undertaking and controlling party at 30 June 2006 was DX Services Limited, a company incorporated in England and Wales whose registered office is at DX House, Ridgeway, Iver, Buckinghamshire SL0 9JQ. Copies of the annual report and financial statements of DX Services Limited may be obtained from the registered office.

DX Services Limited is both the smallest and the largest group into which the company's results are consolidated.

On 6 July 2006 the boards of directors of DX Services Limited and Mail Acquisitions Limited announced that they had reached agreement on the terms of a recommended cash offer to be made by Mail Acquisitions Limited to acquire the entire issued and to be issued ordinary share capital of the DX Services Limited. This offer was declared unconditional in all respects on 23 August 2006.