

## 2e2 Holdings Limited

### Report and Financial Statements

31 December 2008

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## **2e2 Holdings Limited**

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Registered No: 05929340

### **Directors**

E Priestley (Non-Executive Chairman)  
T Burt (Chief Executive)  
M McVeigh  
N Grossman  
S Burt  
J Harper  
J Loveland  
K Mullord

### **Secretary**

S Burt

### **Auditors**

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

### **Bankers**

Bank of Scotland  
155 Bishopsgate  
London, EC2M 3YB

HSBC Bank plc  
70 Pall Mall  
London, SW1Y 5EZ

Lloyds TSB Bank plc  
25 Gresham Street  
London  
EC2V 7HN

Royal Bank of Canada  
Thames Court  
One Queen Hithe  
London, EC4V 4DE

Barclays Bank plc  
1 Churchill Place  
London, E14 5HP

### **Solicitors**

DLA Piper UK LLP  
3 Noble Street  
London, EC2V 7EE

### **Registered Office**

The Mansion House  
Benham Valence  
Newbury  
Berkshire  
RG20 8LU  
United Kingdom

## 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 £0.2m (2007: profit £6.3m).

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 loss for the year after taxation amounted to £35.1m (2007: loss £21.3m). 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: £6.3m) 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:

Eric Priestley  
Terry Burt  
Mark McVeigh  
Nick Grossman  
Simon Burt  
John Harper  
Kate Mullord  
John Loveland

## Directors' report (continued)

### Directors and their interests

The directors' interests in the share capital and loan stock of 2e2 Holdings Limited, the ultimate holding company, are as follows:

	<i>Number of A ord shares</i>	<i>Number of C ord shares</i>	<i>Number of D ord shares</i>	<i>Number of Preference shares</i>	<i>Amount of loan stock</i>
E Priestley	-	7,500	66,657	-	-
T Burt	133,582	542,194	-	2,351,079	2,493,579
M McVeigh	106,671	438,432	-	1,894,832	2,037,332
N Grossman	66,840	60,605	-	258,788	292,038
S Burt	93,576	60,605	-	258,788	292,038
J Loveland	-	8,263	13,334	25,338	25,338
J Harper	-	-	-	-	-
K Mullord	-	-	-	-	-

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

	<i>Number of A ord shares</i>	<i>Number of C ord shares</i>	<i>Number of D ord shares</i>	<i>Number of Preference shares</i>	<i>Amount of loan stock</i>
E Priestley	-	-	66,657	-	-
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
J Loveland	-	5,763	13,334	25,338	25,338
J Harper	-	-	-	-	-
K Mullord	-	-	-	-	-

No director had, during or at the end of the period, 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.

## Directors' report (continued)

### 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.

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).

### 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 facility 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.

## **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 period. 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 Holdings Limited**

We have audited the group and parent company financial statements (the "financial statements") of 2e2 Holdings Limited for the year ending 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 28. 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.

## 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 it these will strengthen its offering 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: 15 December 2009

## Independent auditors' report

to the members of 2e2 Holdings 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 loss for the period 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 UK*

Ernst & Young LLP

Registered Auditor

Reading

Date: 15 December 2009

## Group profit and loss account

for the year ended 31 December 2008

				Period from 8 September 2006 to 31 December 2007
	Note	Continuing operations £'000	Discontinued operations £'000	Total 2008 £'000
<b>Turnover</b>				
Continuing operations	2	183,096	-	183,096
Acquisitions		10,560	-	10,560
		193,656	-	193,656
Discontinued operations		-	11,292	11,292
Group Turnover		193,656	11,292	204,948
Cost of sales		(123,390)	(8,910)	(132,300)
<b>Gross profit</b>		70,266	2,382	72,648
Administration expenses		(51,689)	(3,523)	(55,212)
<b>Operating profit before depreciation, amortisation of goodwill and exceptional items*</b>		18,577	(1,141)	17,436
Depreciation (non-rental assets)		(1,988)	(64)	(2,052)
Amortisation of goodwill	3	(9,416)	-	(9,416)
Exceptional administration expenses	3	(5,639)	(174)	(5,813)
<b>Operating profit</b>		2,970	-	2,970
Continuing operations		(1,436)	-	(1,436)
Acquisitions		1,534	-	1,534
Discontinued operations		-	(1,379)	(1,379)
Operating profit		1,534	(1,379)	155
Cost of fundamental restructuring	3	(3,395)	-	(3,395)
Net interest and other similar charges	4	(31,178)	-	(31,178)
<b>Loss on ordinary activities before taxation</b>	3	(33,039)	(1,379)	(34,418)
Tax on loss on ordinary activities	6	(713)	-	(713)
<b>Loss for the year attributable to members of the parent company</b>	20	(33,752)	(1,379)	(35,131)

\* 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

	<i>Year ended 31 December 2008 £'000</i>	<i>Period ended 31 December 2007 £'000</i>
Loss for the period	(35,131)	(21,289)
Currency translation differences on foreign currency net investments	(4,289)	(499)
Total recognised gains and losses related to the period	<u>(39,420)</u>	<u>(21,788)</u>

# Group balance sheet

at 31 December 2008

	Note	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Intangible assets - goodwill	9	210,429	160,686
Tangible assets	10	17,375	11,710
		<u>227,804</u>	<u>172,396</u>
<b>Current assets</b>			
Stocks	12	5,372	8,076
Debtors - amounts due within one year	13	58,486	51,844
Debtors: amounts due after more than one year	13	3,865	4,607
Cash at bank and in hand		3,846	11,489
		<u>71,569</u>	<u>76,016</u>
<b>Creditors: amounts falling due within one year</b>	14	(53,827)	(56,962)
<b>Net current assets</b>		<u>17,742</u>	<u>19,054</u>
<b>Total assets less current liabilities</b>		<u>245,546</u>	<u>191,450</u>
<b>Financed by:</b>			
<b>Creditors: amounts falling due after more than one year</b>	15	277,842	190,831
Deferred income - falling due within one year	16	19,831	15,442
		<u>297,673</u>	<u>206,273</u>
<b>Capital and Reserves</b>			
Called up share capital	19	91	70
Share premium account	20	8,990	6,895
Profit and loss account	20	(61,208)	(21,788)
<b>Shareholders' funds</b>		<u>(52,127)</u>	<u>14,823</u>
		<u>245,546</u>	<u>191,450</u>

Approved by the Board



S Burt

Director

Date: 15 December 2009

# Company balance sheet

at 31 December 2008

	Note	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Tangible assets	10	-	-
Investments	11	31,024	31,024
		<u>31,024</u>	<u>31,024</u>
<b>Current assets</b>			
Debtors - amounts due within one year	13	21	11
Cash at bank		-	61
		<u>21</u>	<u>72</u>
<b>Creditors: amounts falling due within one year</b>	14	(4,559)	(2,591)
<b>Net current assets</b>		<u>(4,538)</u>	<u>(2,519)</u>
<b>Total assets less current liabilities</b>		<u>26,486</u>	<u>28,505</u>
<b>Financed by:</b>			
<b>Creditors: amounts falling due after more than one year</b>	15	34,074	29,012
<b>Capital and Reserves</b>			
Called up share capital	19	91	70
Share premium account	20	8,990	6,895
Profit and loss account	20	(16,669)	(7,472)
<b>Shareholders' funds</b>		<u>(7,588)</u>	<u>(507)</u>
		<u>26,486</u>	<u>28,505</u>

Approved by the Board



S Burt

Director

Date: 15 December 2009

## Group cash flow statement

for the year ended 31 December 2008

		<i>Year ended</i> <i>31 December</i> <i>2008</i> <i>£'000</i>	<i>Period ended</i> <i>31 December</i> <i>2007</i> <i>£'000</i>
	<i>Note</i>		
<b>Net cash inflow from operating activities</b>	21	9,851	22,922
<b>Returns on investments and servicing of finance</b>			
Interest received		107	(14,145)
Interest paid		(16,434)	485
Finance lease interest paid		(16)	(7)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(16,343)	(13,667)
<b>Taxation</b>		(510)	(1,009)
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(9,086)	(8,465)
<b>Net cash outflow from capital expenditure and financial investment</b>		(9,086)	(8,465)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertakings		(63,054)	(176,166)
Net cash from purchase of subsidiary undertakings		(385)	5,324
Sale of subsidiary		8,398	-
Net cash transferred with subsidiary		(1,303)	-
<b>Net cash outflow from acquisitions and disposals</b>		(56,344)	(170,842)
<b>Financing</b>			
Receipts of borrowings		61,387	178,238
Issue of share capital		2,116	4,465
Finance leases		650	(153)
<b>Net cash inflow from financing</b>		64,153	182,550
<b>(Decrease)/Increase in cash</b>	23	(8,279)	11,489

## Notes to the financial statements

For the year ended 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 and on a going concern basis.

#### *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 period 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 Holdings 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 period 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

For the year ended 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 period 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 any provisions for impairment.

#### *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

For the year ended 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.

	<i>Year ended 31 December 2008 £'000</i>	<i>Period ended 31 December 2007 £'000</i>
United Kingdom (including the Channel Islands and the Isle of Man)	180,742	212,212
Europe	24,206	31,593
	<u>204,948</u>	<u>243,805</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

For the year ended 31 December 2008

### 3. Profit on ordinary activities before taxation

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

	<i>Year ended 31 December 2008 £'000</i>	<i>Period ended 31 December 2007 £'000</i>
Auditors' remuneration - audit services - UK	355	352
- Overseas	83	56
- non-audit services	420	78
Depreciation and amortisation		
- goodwill (see note 9)	9,416	9,424
- tangible fixed assets - owned	6,466	5,554
- held under finance leases and hire purchase contracts	231	51
Other operating lease rentals	6,208	5,846
Exceptional restructuring and integration	5,813	6,297
Fundamental restructuring	3,395	-

The reorganisation, restructuring and integration costs incurred in the period relate to the following activities:

	<i>Year ended 31 December 2008 £'000</i>	<i>Period ended 31 December 2007 £'000</i>
Integration and restructuring of the UK group	4,302	3,443
Integration and restructuring of the Netherlands group	1,511	856
Restructuring costs within Compel following acquisition by the group	-	1,998
	<u>5,813</u>	<u>4,223</u>

#### *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 a centralised support and service delivery functions.

## Notes to the financial statements

For the year ended 31 December 2008

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

	<i>Year ended 31 December</i>	<i>Period ended 31 December</i>
	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Cost of sales	5,578	52,597
Administration expenses	2,922	13,577
Depreciations	690	337
	<u>3,612</u>	<u>13,914</u>

#### 4. Net interest and other similar charges

	<i>Year ended 31 December</i>	<i>Period ended 31 December</i>
	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
On bank loans, overdrafts and other loans	26,214	21,802
Finance charges in respect of finance leases	16	7
Other interest payable and similar charges	5,055	4,655
Other interest receivable and similar income	(107)	(484)
	<u>31,178</u>	<u>25,980</u>

#### 5. Staff costs

Staff costs during the period were as follows:

	<i>Year ended 31 December</i>	<i>Period ended 31 December</i>
	<i>2008</i>	<i>2007</i>
	<i>£'000</i>	<i>£'000</i>
Wages and salaries	53,173	67,415
Social security costs	6,275	8,912
Other pension costs	1,280	1,486
	<u>60,728</u>	<u>77,813</u>

## Notes to the financial statements

For the year ended 31 December 2008

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

	<i>Year ended 31 December 2008</i>	<i>Period ended 31 December 2007 No.</i>
Management and administration	169	158
Sales and marketing	255	247
Operations	899	939
	<u>1,323</u>	<u>1,344</u>

Remuneration in respect of directors during the period was as follows:

	<i>Year ended 31 December 2008 £'000</i>	<i>Period ended 31 December 2007 £'000</i>
Fees	-	-
Emoluments	574	776
Pension contributions to money purchase pension schemes	175	209
Payments to third parties for directors' services	153	212
	<u>902</u>	<u>1,197</u>

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

	<i>Year ended 31 December 2008 £'000</i>	<i>Period ended 31 December 2007 £'000</i>
Emoluments	137	173
Pension contributions to money purchase pension schemes	133	166

During the period 4 directors participated in money purchase pension schemes (2007: 4).

## Notes to the financial statements

For the year ended 31 December 2008

### 6. Tax on profit on ordinary activities

	<i>Year ended 31 December 2008 £'000</i>	<i>Period ended 31 December 2007 £'000</i>
<i>a) The tax charge/(credit) represents:</i>		
UK corporation tax	682	-
Overseas taxation	(530)	569
Adjustments in respect of prior years	561	-
	<u>713</u>	<u>569</u>
Origination and reversal of timing differences	78	739
Effect of change in tax rates on liability	(78)	309
	<u>-</u>	<u>1,048</u>
Total deferred tax	-	1,048
Tax on profit on ordinary activities	<u>713</u>	<u>1,617</u>

#### *b) Factors affecting tax charge for the period*

The tax assessed for the period is higher than the standard rate of corporation tax in the UK of 28%. The differences are explained as follows:

	<i>Year ended 31 December 2008 £'000</i>	<i>Period ended 31 December 2007 £'000</i>
Loss on ordinary activities before tax	(34,418)	(19,672)
Loss on tax on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2007: 28.5%)	<u>(9,637)</u>	<u>(5,901)</u>
<i>Effects of:</i>		
Expenses not deductible for tax purposes	4,451	6,010
Capital allowances in excess of depreciation	(1,091)	(2,813)
Differences in tax rates	(530)	(868)
Unrelieved tax losses	7,881	4,141
Adjustments in respect of prior years	114	-
Group relief	(825)	-
Other timing differences	350	-
	<u>713</u>	<u>569</u>
Current tax charge for the period	<u>713</u>	<u>569</u>

## Notes to the financial statements

For the year ended 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 was £9.2m (2007:£7.5m).

### 8. Dividends

No dividends were paid or declared during either period.

### 9. Intangible fixed assets

	<i>Group 2008</i>	<i>Company 2008</i>	<i>Group 2007 £'000</i>	<i>Company 2007 £'000</i>
Goodwill	210,429	-	160,686	-
<i>Group</i>				
	<i>Purchased goodwill £'000</i>	<i>Goodwill £'000</i>	<i>Negative goodwill £'000</i>	<i>Total £'000</i>
<i>Cost:</i>				
At 1 January 2008	534	169,951	(375)	170,110
Additions	-	57,842	-	57,842
Disposals	-	1,405	-	1,405
At 31 December 2008	534	229,198	(375)	229,357
<i>Amortisation:</i>				
At 31 December 2007	161	9,638	(375)	9,424
Provided in the year	161	9,255	-	9,416
Disposals	-	88	-	88
At 31 December 2008	322	18,981	(375)	18,928
<i>Net book value:</i>				
At 31 December 2008	212	210,217	-	210,429
At 31 December 2007	373	160,313	-	160,686

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

For the year ended 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	609	215	3,295	14,559
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	-	1,737	205	17,222	20,618
<i>Depreciation:</i>						
At 1 January 2008	20	1,462	263	40	1,064	2,849
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	-	686	79	2,463	3,243
<i>Net book value:</i>						
At 31 December 2008	1,439	-	1,051	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.

The Company has no tangible fixed assets.

### 11. Fixed asset investments

<i>Company</i>	<i>Investment in subsidiary undertakings £'000</i>
At beginning and end of year	31,024

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:

## Notes to the financial statements

For the year ended 31 December 2008

### 11. Fixed asset investments (continued)

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

2e2 Limited	2e2 UK Limited
2e2 Services Limited	Motifact Service Management UK Limited
Compelsolve Ltd	2e2 Solutions Limited
2e2 Data Management Limited	2e2 Offshore Limited
Compel Group Limited	Netstore Limited
2e2 Group Limited	2e2 Investments Limited

**Incorporated in the Netherlands and trading:**

2e2 Tradcom 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 Belgie N.V.
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### 12. Stocks

	<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>
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>

### 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	-	40,405	-
Prepayments and accrued income	17,909	21	11,439	11
Deferred tax asset (see note 18)	3,865	-	4,607	-
Corporation tax	-	-	-	-
	<u>62,351</u>	<u>21</u>	<u>56,451</u>	<u>11</u>

## Notes to the financial statements

For the year ended 31 December 2008

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	3,865	-	4,607	-

### 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 and overdrafts	4,000	3	14,000	-
Trade creditors	25,638	444	26,666	359
Amounts owed to group undertakings	-	4,087	-	1,800
Tax and social security	7,041	-	4,891	(6)
Accruals	16,363	25	11,380	438
Amounts due under finance leases	785	-	25	-
	<u>53,827</u>	<u>4,559</u>	<u>56,962</u>	<u>2,591</u>

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

### 15. Creditors: amounts falling 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>
Interest accrued on loan notes and preference shares	25,624	9,717	10,799	4,655
Preference shares	24,357	24,357	24,357	24,357
Investor loan notes	68,662	-	28,709	-
Management loan notes	8,468	-	7,518	-
Finance Leases	789	-	-	-
Bank loans	149,942	-	119,448	-
	<u>277,842</u>	<u>34,074</u>	<u>190,831</u>	<u>29,012</u>

## Notes to the financial statements

For the year ended 31 December 2008

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%.
- 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% to 3.5%.
- 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%.
- 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%.
- Mezzanine Facility – in the amount of £35 million is repayable in a single instalment on 10 October 2018. Interest is payable at the rate of LIBOR plus 10.5%. 5.5% of the interest is not due for payment and rolls up until 10 October 2018.

In accordance with FRS25, the preference shares are disclosed as financial liabilities. As described in note 19, the preference shares have certain rights to income. Income accrues to the holders of the preference shares at the rate of 15 per cent per annum on the Subscription Price on the basis of a 365 day year. The preference share dividend accrues on a daily basis commencing on the issue date and is rolled up in arrears quarterly in every year.

The Investor loan notes are secured by means of a fixed and floating charge on the assets of the Company and the Group, ranking behind the security granted on the bank loans. Interest accrues on the investor loan notes at the rate of 15% per annum. The investor loan notes together with any accrued interest are redeemable at par on 30 September 2018.

The management loan notes are unsecured and are redeemable at par together with any accrued interest on 30 September 2018. Interest accrues on the management loan notes at the rate of 15% per annum.

### 16. Deferred income

	<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 income - within one year	19,831	-	15,442	-

## Notes to the financial statements

For the year ended 31 December 2008

### 17. Borrowings

Borrowings are repayable as follows:

	<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>
<i>Within one year:</i>				
Bank and other borrowings	4,000	-	14,000	-
Finance leases	785	-	25	-
<i>After one and within two years:</i>				
Bank and other borrowings	4,000	-	5,000	-
Finance leases	416	-	-	-
<i>After two years and within five years:</i>				
Bank and other borrowings	17,800	-	22,500	-
Finance leases	373	-	-	-
<i>After five years:</i>				
Bank and other borrowings	259,856	24,357	165,716	24,357
Less: issue costs	(4,603)	-	(2,410)	-
	<u>282,627</u>	<u>24,357</u>	<u>204,831</u>	<u>24,357</u>

Bank and other borrowings repayable after five years comprise:

	<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 borrowings	132,744	-	94,332	-
Loan notes	77,131	-	36,228	-
Preference shares	24,357	24,357	24,357	24,357
Accrued interest	25,624	-	10,799	-
	<u>259,856</u>	<u>24,357</u>	<u>165,716</u>	<u>24,357</u>

On 22 September 2006 the company and its subsidiaries entered into a cross guarantee in favour of the group's bankers in respect of the total bank borrowings of the group.

## Notes to the financial statements

For the year ended 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>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>
<i>Assets</i>				
Tax losses carried forward	3,865	-	4,607	-

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

	<i>Group and Company £'000 2008</i>
At 1 January 2008	4,607
Utilised during the year	(1,369)
Adjustments in respect of prior year's	1,369
Other adjustments	(742)
	<u>3,865</u>

Based on current contracted revenues and consequent visibility of profits at 2e2 Services Limited, 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>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>
<i>Assets</i>				
Depreciation in excess of capital allowances	797	-	11,698	-
Other short-term timing differences	850	-	1,061	-
Tax losses carried forward	29,942	1,318	9,830	845
Total tax losses carried forward	<u>31,589</u>	<u>1,318</u>	<u>22,589</u>	<u>845</u>

## Notes to the financial statements

For the year ended 31 December 2008

### 19. Share capital

#### Group and Company

	2008 £'000	2007 £'000
<i>Authorised:</i>		
1,000,000 A ordinary shares of £0.01 each	10	10
5,974,720 B ordinary shares of £0.01 each	59	40
1,850,000 C ordinary shares of £0.01 each	18	18
800,000 D ordinary shares of £0.01 each	8	8
25,000,000 preference shares of £1.00 each	25,000	25,000
	<u>25,095</u>	<u>25,076</u>
<i>Allotted, called up and fully paid:</i>		
1,000,000 A ordinary shares of £0.01 each	10	10
5,974,720 B ordinary shares of £0.01 each	59	40
1,809,881 C ordinary shares of £0.01 each	18	17
429,809 D ordinary shares of £0.01 each	4	3
	<u>91</u>	<u>70</u>
24,357,184 preference shares of £1.00 each (classified as a liability in accordance with FRS25, see note 15)	24,357	24,357
	<u>24,448</u>	<u>24,427</u>

The Company's authorised share capital on incorporation (8 September 2006) was £1000 divided into 1000 shares of £1 each of which 1 was issued.

On 22 September 2006, resolutions of the Company to the following effect were passed by the sole shareholder:

- (1) That the 1 issued share of £1 of the Company be subdivided into 100 shares of £0.01 each and the 999 unissued share capital of £1 each of the Company be subdivided into 99,900 shares of £0.01 each.
- (2) That each of the 100 issued and the 99,900 unissued shares in the authorised share capital of the Company be converted and redesignated as "B" shares.
- (3) That the authorised share capital of the Company be increased by £25,075,000 from £1,000 to £25,076,000 by the creation of an additional:
  - (a) 1,000,000 "A" Shares of £0.01 each; (b) 3,900,000 "B" Shares of £0.01 each; (c) 1,800,000 "C" Shares of £0.01 each; (d) 800,000 "D" Shares of £0.01 each; and (e) 25,000,000 Preference Shares of £1 each.

The directors allotted: (a) 165,338 "A" Shares of £0.01 each for a consideration of £1.00 each per share; (b) 3,956,797 "B" Shares of £0.01 each for a consideration of £1.00 each per share; (c) 10,040 "C" Shares of £0.01 each for a consideration of £1.00 each per share; and (d) 16,882,904 Preference Shares of £1.00 each for a consideration of £1.00 each per share.

Pursuant to a Share Exchange Agreement, the directors allotted a further: (a) 800,522 "A" Shares of £0.01 each for a consideration of £1.00 each per share; (b) 1,699,841 "C" Shares of £0.01 each for a consideration of £1.00 each per share; and (c) 7,474,280 Preference Shares of £1.00 each for a consideration of £1.00 each per share.

On 3 November 2006, the directors allotted 66,667 "D" Shares of £0.01 each for a consideration of £1.00 each per share.

## Notes to the financial statements

For the year ended 31 December 2008

On 2 March 2007, the directors allotted a further: (a) 33,334 "A" Shares of £0.01 each for a consideration of £1.00 each per share; and (b) 166,338 "D" Shares of £0.01 each for a consideration of £1.00 each per share.

On 2 April 2007, the directors allotted a further 102,805 "D" Shares of £0.01 each for a consideration of £1.00 each per share.

On 27 September 2007, the directors allotted a further 16,667 "D" Shares of £0.01 each for a consideration of £1.00 each per share.

On 10 October 2008, the authorised share capital of the company was increased to £25,096,247 by the creation of additional 1,974,720 "B" shares of £0.01 each and 50,000 "C" Shares of £0.01 each.

On 10 October 2008, the directors allotted a further 1,974,720 "B" shares of £0.01 each for a consideration of £1.00 per share; 50,000 "C" Shares of £0.01 each for a consideration of £1.00 per share; and 91,280 "D" Shares of £0.01 each for a consideration of £1.00 per share.

### Class Rights

#### *Dividends*

Profits which are available for distribution are applied first, in accruing to the holders of the Preference Shares a fixed cumulative dividend at the rate of 15 per cent per annum. This dividend accrues on a daily basis and is rolled up in arrears quarterly in every year;

The balance of the profits which the Company may determine to distribute shall be distributed amongst the Equity Shareholders *pari passu*, as if the A Shares, B Shares, C Shares and D Shares constituted one class of shares.

#### *Return of capital*

On winding up of the Company or other return of capital the assets of the Company remaining after payment of its debts and liabilities shall be applied in the following manner and order of priority:

First, in paying to the preference shareholders a sum equal to all unpaid arrears or accruals of any dividends; secondly, in paying to the Preference Shareholders the subscription price on each preference share; thirdly, in paying to the C shareholders and B shareholders a sum equal to the subscription price on each share; fourthly, in paying to the A shareholders and D shareholders a sum equal to the subscription price on each A share and D share. Any balance should be distributed in proportion to the number of equity shares held as if all shares are of the same class.

#### *Voting*

The holders of the equity shares shall have one vote in respect of each fully paid equity share registered in his name

### Share option reserve

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 period end. The weighted average share price at the date of exercise for share options issued during the period was 100p.

## Notes to the financial statements

For the year ended 31 December 2008

### 19. Share capital (continued)

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	100p	100p
Weighted average exercise price	100p	100p
Expected volatility	35.53%	35.53%
Risk-free rate	4.25%	4.25%
Expected dividend yield	-	-

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.

During the period, 44,250 (2007: 48,675) options were granted and all were outstanding at 31 December 2008. During the period no options were exercised or cancelled or had lapsed. For the share options outstanding as at 31 December 2008, the weighted average remaining contractual life is 9 years. The group recognised total charges of £3,310 (2007: £3,969) related to equity-settled share-based payment transactions during the period.

### 20. Share premium account and reserves

<i>Group</i>	<i>Share premium account £'000</i>	<i>Profit and loss account £'000</i>
At 1 January 2008	6,895	(21,788)
Retained loss for the period		(35,128)
Premium on allotment during the period	2,095	-
FRS 20 share option charges	-	(3)
Currency translation differences on foreign currency net investments	-	(4,289)
At 31 December 2008	8,990	(61,208)
<i>Company</i>		
At 1 January 2008	6,895	(7,472)
Retained loss for the period	-	(9,194)
FRS 20 share option charges	-	(3)
Premium on allotment during the period	2,095	-
At 31 December 2008	8,990	(16,669)

## Notes to the financial statements

For the year ended 31 December 2008

### 21. Net cash inflow from operating activities

	2008 £'000	2007 £'000
Operating profit	155	6,308
Cash impact of fundamental restructuring	(3,395)	-
Amortisation of goodwill	9,416	9,424
Depreciation	6,697	5,605
Decrease in stock	1,946	205
Increase in debtors	(6,260)	(5,848)
Increase in creditors	6,532	7,199
Foreign exchange gains	(5,256)	-
Loss on sale of fixed assets	16	29
Net cash inflow from operating activities	9,851	22,922

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

	2008 £'000	2007 £'000
(Decrease)/increase in cash in the period	(8,279)	11,489
Cash inflow from financing	(62,037)	(178,086)
Change in net debt resulting from cash flows	(70,316)	(166,597)
Finance leases acquired with subsidiaries	(900)	(178)
Rolled up interest on loan notes and preference shares	(14,835)	(11,555)
Issue of shares and loan capital	-	(15,037)
Difference on translation	635	-
Movement in the period	(85,416)	(193,367)
Net debt at the start of the period	(193,367)	-
Net debt at end of period	(278,783)	(193,367)

### 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	11,489	(8,279)	-	635	3,845
Long term loans	(204,831)	(61,387)	-	(14,835)	(281,053)
Finance leases	(25)	(650)	(900)	-	(1,575)
	(193,367)	(70,316)	(900)	(14,200)	(278,783)

## Notes to the financial statements

For the year ended 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 £'000</i>	<i>Accounting policy alignments £'000</i>		<i>Fair value adjustments £'000</i>		<i>Provisional fair value £'000</i>
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

## Notes to the financial statements

For the year ended 31 December 2008

### 24. Acquisitions (continued)

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 1 July 2007 to 3 October 2008 £'000</i>	<i>Year ended 30 June 2007 £'000</i>
Turnover	47,399	37,600
Cost of sales	(27,044)	(18,763)
Gross profit	20,355	18,837
Operating expenses	(21,014)	(18,918)
Exceptional operating expenses	(2,260)	-
Operating profit	(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

Goodwill arising on the above acquisition has been capitalised.

Adjustments:

- (a) Staff costs on development projects expenses 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.

## Notes to the financial statements

For the year ended 31 December 2008

### 24. Acquisitions (continued)

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:

## Notes to the financial statements

For the year ended 31 December 2008

### 24. Acquisitions (continued)

	<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.

## Notes to the financial statements

For the year ended 31 December 2008

### 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:

	£'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)
	<u>7,481</u>
<i>Satisfied by:</i>	
Cash	8,650
Fees	(250)
Other non-cash costs of disposal	(919)
	<u>7,481</u>

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 £0.4m (2007 - £0.8m).

### 27. Contingent liabilities

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

## Notes to the financial statements

For the year ended 31 December 2008

### 28. Leasing commitments - group

Operating lease payments amounting to £1.6m 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>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
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	-
	<u>3,254</u>	<u>2,749</u>	<u>2,541</u>	<u>3,135</u>