

Dalglen (No 823) Limited

Annual Report

Year ended 31 August 2005



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Company Information

Directors	John Cole Ken Hills Anthony Bull Dean Hartley David Ewing
Secretary	Dean Hartley
Registered office	1 Central Park Avenue Central Business Park Larbert Falkirk FK5 4RX
Registered number	231283 (Scotland)
Auditors	RSM Robson Rhodes LLP Chartered Accountants Centre City Tower 7 Hill Street Birmingham B5 4UU
Bankers	Bank of Scotland New Uberior House 11 Earl Grey Street Edinburgh EH3 9BN
Solicitors	Harper MacLeod Ca'd'oro Building 45 Gordon Street Glasgow Lanarkshire G1 3PE

Report of the Directors

The directors present their report and the audited financial statements for the year ended 31 August 2005.

Principal activities

The principal activity of the company is that of a holding company. The principal activity of its subsidiary undertaking relates to the provision of out-sourced customer contact centre services.

Business review and future developments

Dalglen owns 100% of the issued share capital of Telecom Service Centres Limited ("TSC"). Whilst the previous two years have proved challenging, 2004/05 has seen a significant turnaround in performance driven by a change in management team. The introduction of new sites in Glasgow, Dearne Valley and Shawbost has driven substantial revenue growth. This growth, combined with the delivery of further efficiencies in the cost base, has enabled the business to return to profitability and achieve the target returns set by investors.

In addition to the improvement in trading performance, the majority shareholder, Lloyds TSB Development Capital Ltd invested approximately £11.25m by way of a rights issue in November 2005, the proceeds of which went to repay certain loan notes. This has significantly enhanced the Group's balance sheet position and re-emphasises the principal investors support for the business.

TSC has now established an excellent platform from which to deliver further substantial growth opportunities and enhance its position as one of the leading players in the UK market.

Dividends

The directors do not propose a dividend for the year (2004: £Nil).

Directors

The present directors of the company are set out on page 1. The movement in directors during the year is as follows:

	Appointed	Resigned
Dean Hartley	1 September 2004	-
David Ewing	29 September 2004	-

Those directors serving at the end of the year had no interests in the share capital of the company at 31 August 2005.

Report of the Directors

(continued)

Employees

The Board pursues policies designed to encourage employees to identify with the company and use their knowledge and skills actively towards its success. Management is encouraged to make employees aware of the financial and economic factors affecting the company's performance.

Full consideration is given to employment applications from disabled persons who have the necessary aptitudes and abilities. Where an employee becomes disabled whilst employed, arrangements are made wherever practicable to maintain employment. The company seeks to develop the skills of disabled persons by providing appropriate training, taking into account their particular needs.

Group's policy on payment of creditors

The Group's policy for the year to 31 August 2005 for all suppliers, is to fix terms of payment when agreeing the terms of each business transaction, to ensure that the supplier is aware of those terms, and to abide by the agreed terms of payment. As the Company is a holding Company it has no trade creditors and accordingly no disclosure can be made of the year end creditor days.

Statement of directors' responsibilities for the financial statements

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

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

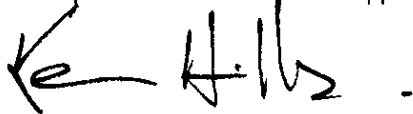
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Auditors

RSM Robson Rhodes LLP are willing to continue in office and a resolution to reappoint them will be proposed at the Annual General Meeting.

Approval

The report of the directors was approved by the Board on 28 November 2005 and signed on its behalf by:



Ken Hills
Director

Independent Auditors' Report to the Shareholders of Dalglen (No 823) Limited

We have audited the financial statements on pages 5 to 26.

This report is made solely to the company's shareholders, 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 shareholders 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 shareholders 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 law and United Kingdom Accounting Standards 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 United Kingdom Auditing Standards.

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31 August 2005 and of the group's loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
Birmingham, England
28 November 2005

Consolidated Profit and Loss Account

for the year ended 31 August 2005

	Note	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Turnover: continuing operations		43,427	29,234
Cost of sales		(28,576)	(19,122)
Gross profit		14,851	10,112
Administrative expenses		(13,337)	(12,005)
Exceptional administrative expenses		(133)	(511)
Total administrative expenses		(13,470)	(12,516)
Other operating income		250	150
Operating profit /(loss): continuing operations	2	1,631	(2,254)
Interest receivable and similar income	3	103	30
Interest payable and similar charges	4	(2,966)	(2,322)
Loss on ordinary activities before taxation		(1,232)	(4,546)
Tax on loss on ordinary activities	7	40	448
Loss for the financial year after taxation		(1,192)	(4,098)
Dividends (including non equity shares)		-	-
Deficit brought forward		(7,336)	(3,238)
Deficit carried forward		(8,528)	(7,336)

Consolidated Statement of Total Recognised Gains and Losses

for the year ended 31 August 2005

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Loss for the financial year	(1,192)	(4,546)
Depreciation of revalued buildings	1	-
Unrealised surplus on revaluation of property	-	65
	<hr/>	<hr/>
Total recognised gains/(losses)	(1,191)	(4,481)
	<hr/>	<hr/>

Note of Consolidated Historical Cost Profits and Losses

for the year ended 31 August 2005

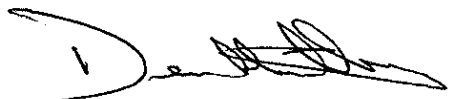
	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Reported loss on ordinary activities before taxation	(1,232)	(4,546)
Depreciation of revalued buildings	1	-
	<hr/>	<hr/>
Historical cost loss on ordinary activities before taxation	(1,231)	(4,546)
	<hr/>	<hr/>
Historical cost loss for the year after taxation and dividends	(1,191)	(4,098)
	<hr/>	<hr/>

Consolidated Balance Sheet

At 31 August 2005

	Note	31 August 2005 £'000	31 August 2004 £'000
Fixed assets			
Intangible assets	8	14,077	14,880
Tangible assets	9	5,210	5,018
		<hr/>	<hr/>
		19,287	19,898
Current assets			
Debtors	11	9,278	7,310
Cash at bank and in hand		3,002	775
		<hr/>	<hr/>
Creditors: Amounts falling due within one year	13	12,280 (10,963)	8,085 (5,841)
		<hr/>	<hr/>
Net current assets		1,317	2,244
		<hr/>	<hr/>
Total assets less current liabilities		20,604	22,142
Creditors: Amounts falling due after more than one year	14	(28,485)	(28,831)
		<hr/>	<hr/>
Net liabilities		(7,881)	(6,689)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	17	25	25
Share premium	18	575	575
Revaluation reserve	18	64	65
Profit and loss account	18	(8,553)	(7,359)
Appropriation reserve	18	8	5
		<hr/>	<hr/>
Deficit to equity shareholders' funds	19	(7,881)	(6,689)
		<hr/>	<hr/>

The financial statements were approved by the Board on 28 November 2005 and signed on its behalf by:



Dean Hartley
Director

Company Balance Sheet

at 31 August 2005

	Note	31 August 2005 £'000	31 August 2004 £'000
Fixed assets			
Investments	10	21,422	21,422
		<hr/>	<hr/>
Current assets			
Debtors- falling due after one year	12	6,643	6,060
		<hr/>	<hr/>
		6,643	6,060
Creditors: Amounts falling due within one year	13	(5,130)	(2,011)
		<hr/>	<hr/>
Net current assets		1,513	4,049
		<hr/>	<hr/>
Total assets less current liabilities		22,935	25,471
Creditors: Amounts falling due after more than one year	14	(28,463)	(28,640)
		<hr/>	<hr/>
Net liabilities		(5,528)	(3,169)
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	17	25	25
Share premium	18	575	575
Profit and loss account	18	(6,136)	(3,774)
Appropriation reserve	18	8	5
		<hr/>	<hr/>
Deficit to equity shareholders' funds	19	(5,528)	(3,169)
		<hr/>	<hr/>

The financial statements were approved by the Board on 28 November 2005 and signed on its behalf by:



Dean Hartley
Director

Consolidated Cash Flow Statement

for the year ended 31 August 2005

	Note	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Net cash inflow/(outflow) from operating activities	23	4,028	(1,997)
Returns on investment and servicing of finance			
Interest received		103	30
Interest paid		(1,260)	(760)
Interest element of finance lease payments		(24)	(55)
		(1,181)	(785)
Taxation received			
UK corporation tax		461	-
Capital expenditure and financial investment			
Payments for tangible fixed assets		(2,112)	(588)
Cash flow before financing		1,196	(3,370)
Financing			
New bank loans		1,266	9,124
Vendor loans		-	(5,424)
Capital element of finance lease payments		(235)	(199)
		1,031	3,501
Increase in cash	24	2,227	131

Notes to the Financial Statements

for the year ended 31 August 2005

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared in accordance with applicable accounting standards under the historical cost convention. As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company has not been presented.

Basis of consolidation

The group accounts consolidate the accounts of the company and all its subsidiary undertakings at 31 August using acquisition accounting. The results of subsidiary undertakings acquired or disposed of during a financial period are included from, or up to, the effective date of acquisition or disposal.

Turnover

Turnover consists of the invoiced value (excluding VAT) for goods and services supplied in the period.

Investments

Investments in subsidiaries and participating interests are stated at cost less provision for impairment where necessary to reduce book value to recoverable amount. Other investments are stated at cost less any provision for permanent diminution in value. Cost is purchase price including acquisition expenses, but excluding any payment for accrued interest or fixed dividend entitlement.

Goodwill

Positive goodwill is the excess of the cost of an acquired entity over the aggregate of the fair values of that entity's identifiable assets and liabilities. Positive goodwill relating to acquisitions is shown in the balance sheet as an asset and is amortised evenly over its estimated useful economic life of 20 years. In addition to systematic amortisation, the book value is written down to recoverable amount when any impairment is identified.

Tangible fixed assets and depreciation

Depreciation is provided evenly on the cost (or valuation where appropriate) of tangible fixed assets, to write them down to their estimated residual values over their expected useful lives. Where there is evidence of impairment, fixed assets are written down to recoverable amount. Any such write down would be charged to the operating result unless it was a reversal of a past revaluation surplus in which case it would be taken to the consolidated statement of total recognised gains and losses. No depreciation is provided on freehold land. The principal annual rates used for other assets are:

Leasehold improvements	- Over the term of the lease
Buildings	- 2% on valuation
Motor vehicles	- 33% on cost
Fixtures, fittings and equipment	- 20% - 33% on cost
Computer equipment	- 25% - 33% on cost

Leased assets

Assets held under finance leases are included in the balance sheet and depreciated in accordance with the company's normal accounting policies. The present value of future rentals is shown as a liability. The interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the balance of capital repayments outstanding.

Rentals payable under operating leases are charged to the profit and loss account on a straight-line basis over the terms of the leases.

Notes to the Financial Statements

for the year ended 31 August 2005

1. ACCOUNTING POLICIES *(continued)*

Pensions

The company operates a defined contribution pension scheme for senior staff other than directors. The assets of the scheme are invested and managed independently of the finances of the company. The pension cost charge represents contributions payable in the year.

Government grants

Grants in respect of fixed assets are credited to the profit and loss account in equal annual instalments over the useful lives of the assets concerned.

Other grants are credited to the profit and loss account in the same period as the expenditure to which they contribute.

Finance costs

Financing costs are accounted for in accordance with FRS 4 'Capital Instruments' and are written off over the life of the financing to which they relate. The balance at the end of the period is set against the outstanding liability.

Deferred taxation

Deferred tax is provided, except as noted below, on timing differences that have arisen but not reversed by the balance sheet date, where the timing differences result in an obligation to pay more tax, or a right to pay less tax, in the future. Timing differences arise because of differences between the treatment of certain items for accounting and taxation purposes.

In accordance with FRS 19 deferred tax is not provided on timing differences arising from:

- a) revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date; and
- b) gains on the sale of non-monetary assets, where on the basis of all available evidence it is more likely than not that the taxable gain will be rolled over into replacement assets.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the periods when the timing differences are expected to reverse, based on tax rates and law enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

Where law or accounting standards require gains and losses to be recognised in the statement of total recognised gains and losses, the related taxation is also taken directly to the statement of total recognised gains and losses in due course.

Notes to the Financial Statements

for the year ended 31 August 2005

2. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is arrived at after charging/(crediting):

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Other operating leases	25	167
Rent of properties	1,703	723
Depreciation – owned assets	1,611	1,264
Depreciation – assets on hire purchase contracts and finance leases	309	481
Government grants	(127)	(81)
Auditors' remuneration - audit	27	29
- non-audit	10	22
	<hr/>	<hr/>

The operating profit for the year includes exceptional administrative expenses of £133,000 (2004: £511,000) which can be summarised as follows:

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Post acquisition restructuring	-	373
Redundancy on restructuring	133	-
Write off of former group balance	-	138
	<hr/>	<hr/>
	133	511
	<hr/>	<hr/>

3. INTEREST RECEIVABLE

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Bank interest	73	30
Interest on corporation tax repayment	30	-
	<hr/>	<hr/>
	103	30
	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 August 2005

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Bank interest	1,633	1,152
Loan note interest	1,309	1,115
Hire purchase and finance leases	24	55
	<hr/>	<hr/>
	2,966	2,322
	<hr/>	<hr/>

5. EMPLOYEES

Average monthly number of employees employed by the group, including directors:

	Year ended 31 August 2005 No.	Year ended 31 August 2004 No.
Call centre operatives	2,403	1,583
Administration	91	131
	<hr/>	<hr/>
	2,494	1,714
	<hr/>	<hr/>

Staff costs, including directors:

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Wages and salaries	28,143	21,530
Social security costs	2,159	1,692
Other pension costs	284	279
	<hr/>	<hr/>
	30,586	23,501
	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 August 2005

6. DIRECTORS EMOLUMENTS

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Emoluments	485	461
Contributions to money purchase schemes	36	26
Compensation for loss of office	-	91
	<hr/>	<hr/>
	521	578
	<hr/>	<hr/>

The number of directors to whom retirement benefits were accruing was as follows:

	Year ended 31 August 2005 No.	Year ended 31 August 2004 No.
Money purchase schemes	3	5
	<hr/>	<hr/>

Information regarding the highest paid director is as follows:

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Emoluments	179	165
Contributions to money purchase pension scheme	17	-
	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 August 2005

7. TAXATION

Taxation credit for the period

The taxation credit for the period is analysed below:

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
United Kingdom Corporation Tax		
Current tax on income for the period	-	-
Adjustment in respect of prior period	-	(42)
	<hr/>	<hr/>
Current tax	-	(42)
	<hr/>	<hr/>
Deferred tax		
Net origination of timing differences	(5)	(451)
Adjustment in respect of prior period	(35)	45
	<hr/>	<hr/>
Tax on loss on ordinary activities	(40)	(448)
	<hr/>	<hr/>

Current tax reconciliation

The current tax credit is lower than the standard rate of corporation tax in the UK. A reconciliation is shown below:

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Loss on ordinary activities before taxation	(1,232)	(4,545)
	<hr/>	<hr/>
Theoretical tax credit at UK corporation tax rate 30% (2004: 30%)	(370)	(1,364)
Effects of:		
- expenditure that is not tax deductible	366	354
- adjustments in respect of prior years	-	(42)
- accelerated capital allowances	346	126
- other short term timing differences	1	6
- movement in losses	(343)	878
	<hr/>	<hr/>
Actual current taxation credit	-	(42)
	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 August 2005

8. INTANGIBLE ASSETS

	Goodwill £'000
Cost	
At 1 September 2004	16,145
Additions	-
	<hr/>
At 31 August 2005	16,145
	<hr/>
Amortisation	
At 1 September 2004	(1,265)
Charged in the period	(803)
	<hr/>
At 31 August 2005	(2,068)
	<hr/>
Net book value	
At 31 August 2005	14,077
	<hr/>
Net book value	
At 31 August 2004	14,880
	<hr/>

Acquisition of Subsidiary Undertaking

On 5 February 2003, the group acquired 100% of the issued share capital of the Telecom Service Centres Limited for Consideration of £21,422,000. The book value of assets and liabilities was £5,277,000 resulting in Goodwill of £16,145,000. There were no differences between the book value and fair value of assets acquired.

Notes to the Financial Statements

for the year ended 31 August 2005

9. TANGIBLE ASSETS – Group

	Leasehold improve- ments £'000	Buildings £'000	Furniture, fittings & equipment £'000	Computer equipment £'000	Total £'000
Cost or valuation					
At 1 September 2004	862	1,675	4,474	5,570	12,581
Additions	124	-	1,216	772	2,112
At 31 August 2005	986	1,675	5,690	6,342	14,693
Depreciation					
At 1 September 2004	265	-	3,204	4,094	7,563
Charge for year	87	34	1,008	791	1,920
At 31 August 2005	352	34	4,212	4,885	9,483
Net book value					
At 31 August 2005	634	1,641	1,478	1,457	5,210
At 31 August 2004	597	1,675	1,270	1,476	5,018

The net book value of the tangible fixed assets includes £402,000 (2004: £721,000) in respect of assets held under finance leases. Depreciation charged in the year on those assets amounted to £309,000 (2004: £481,000).

Valuation of fixed assets

Land and buildings were revalued in 2004 at a valuation of £1,675,000, with the historical cost being £1,665,000. No other assets have been revalued.

Independent external valuers, GVA Grimley, revalued all properties as at 31 August 2004, on the basis of Existing Use Value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Existing Use Value includes notional directly attributable acquisition costs.

If the assets had not been revalued they would have been included in the balance sheet at the following amounts:

	31 August 2005 £'000	31 August 2004 £'000
Historical cost	1,665	1,665
Aggregate depreciation	88	55

Notes to the Financial Statements

for the year ended 31 August 2005

10. INVESTMENTS

Company	Investment in subsidiary undertakings £'000
Cost and net book value	
At 1 September 2004 and 31 August 2005	21,422

The shares in group undertakings, which are held directly by the company, comprise an investment in the following principal subsidiary undertaking at 31 August 2005:

Principal trading subsidiary	Interest in ordinary shares and voting rights	Country of incorporation	Principal activity
Telecom Service Centres Ltd	100%	Great Britain	Contact Centre

11. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Trade debtors	6,958	5,611	-	-
Prepayments and accrued income	1,793	774	-	-
Other debtors	117	94	-	-
Corporation tax debtor	-	461	-	-
Deferred tax asset (note 16)	410	370	-	-
	<u>9,278</u>	<u>7,310</u>	<u>-</u>	<u>-</u>

Notes to the Financial Statements

for the year ended 31 August 2005

12. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group		Company	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Amounts due from subsidiary undertakings	-	-	6,643	6,060

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Borrowings (note 15)	1,850	236	1,680	-
Trade creditors	1,214	877	-	6
Other taxes and social security	2,430	1,470	-	-
Accruals and deferred income	5,469	3,258	3,450	2,005
	10,963	5,841	5,130	2,011

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Borrowings (note 15)	28,485	28,831	28,463	28,640

Notes to the Financial Statements

for the year ended 31 August 2005

15. BORROWINGS

	Group		Company	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Due within one year				
Obligations under finance leases and hire purchase contracts	170	236	-	-
Bank loans	1,680	-	1,680	-
Vendor loan notes	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	1,850	236	1,680	-
	<hr/>	<hr/>	<hr/>	<hr/>
Due after more than one year				
Obligations under finance leases and hire purchase contracts	22	191	-	-
Bank loans	13,863	14,185	13,863	14,185
Vendor loan notes	2,772	2,761	2,772	2,761
Investor loan notes	11,630	11,498	11,630	11,498
Directors' loan notes	198	196	198	196
	<hr/>	<hr/>	<hr/>	<hr/>
	28,485	28,831	28,463	28,640
	<hr/>	<hr/>	<hr/>	<hr/>
Repayable				
Due within 1 year	1,850	236	1,680	-
Between one and two years	1,998	1,859	1,976	1,668
Between two and five years	18,807	8,115	18,807	8,115
After five years	7,680	18,857	7,680	18,857
	<hr/>	<hr/>	<hr/>	<hr/>
	30,335	29,067	30,143	28,640
	<hr/>	<hr/>	<hr/>	<hr/>

Security given on liabilities

Lloyds TSB Commercial Finance have provided a working capital facility secured against the book debts of the business together with fixed and floating charge against property and assets of the business.

The Bank of Scotland has provided bank loans which are secured by a Floating charge over all the assets of the company and its subsidiaries and standard securities over Bute House, Rothesay and Caledonia House, Dunoon.

The Vendor loan notes are repayable on the future realisation of the investment in Telecom Service Centres Ltd.

The Investor loan notes are subordinated to the bank and are repayable following the repayment of bank debt and vendor loan notes. The investor loan notes have been provided by Lloyds Development Capital Limited, the immediate parent undertaking.

Obligations under finance leases and hire purchase contracts are secured on the assets concerned.

Notes to the Financial Statements

for the year ended 31 August 2005

15. BORROWINGS (continued)

Deal costs

£1,185,000 of finance costs were capitalised in accordance with FRS4 during the year ended 31 August 2003. These costs are being amortised over the term specified by the accounting policy. As at 31 August 2005 the unamortised costs were £573,000 (2004: £810,000) which is netted off against the outstanding balance of borrowings.

Loans falling due after 5 years

Investor loan notes

The investor loan notes are repayable in eight equal 6 monthly tranches of £1,493,750. The first repayment is scheduled on 30 April 2009.

The loan notes attract interest at a rate of 2% above LIBOR. Interest accrued up to each repayment date will be paid together with the capital repayment.

On 25 November 2005, the Board approved a rights issue that resulted in the repayment of £11.2m of Investor loan notes.

Vendor loan notes

The vendor loan notes are repayable on 28 February 2009 together with interest accrued up to that date.

The vendor loan notes attract an interest rate of 1% below LIBOR.

Bank loans

The bank loans falling due after 5 years are repayable in eight quarterly instalments from 30 November 2008.

The bank loans due after 5 years attract interest at a rate of 4% above LIBOR.

Directors' loans

The Directors' loan notes are realisable after repayment of the investor loan notes

16. DEFERRED TAXATION

	Group Deferred tax £'000	Company Deferred tax £'000
Balance at 1 September 2004	(370)	-
Movement during period	(40)	-
	<hr/>	<hr/>
Balance at 31 August 2005	(410)	-
	<hr/>	<hr/>

Notes to the Financial Statements

for the year ended 31 August 2005

16. DEFERRED TAXATION (continued)

Deferred taxation comprises:

Group	Recognised		Unrecognised	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Accelerated capital allowances	(397)	(31)	-	-
Short term timing differences	(12)	(20)	-	-
Losses	-	(319)	(899)	(899)
	<u>(409)</u>	<u>(370)</u>	<u>(899)</u>	<u>(899)</u>

Company	Recognised		Unrecognised	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Losses	-	-	899	899
	<u>-</u>	<u>-</u>	<u>899</u>	<u>899</u>

The deferred tax asset arising on losses within Dalglen has not been recognised on the grounds that there is uncertainty as to future profits being available in Dalglen against which these losses could be utilised.

17. SHARE CAPITAL

	31 August 2005 £'000	31 August 2004 £'000
Authorised		
600,000 Preferred ordinary shares of £0.01 each	6	6
180,000 A Ordinary shares of £0.1 each	18	18
54,000 B Ordinary shares of £0.01 each	1	1
148,000 C Ordinary shares of £0.1 each	15	15
18,000 D Ordinary shares £0.01 each	-	-
	<u>40</u>	<u>40</u>
Allotted and fully paid		
600,000 Preferred ordinary shares of £0.01 each	6	6
180,000 A Ordinary shares of £0.1 each	18	18
36,000 B Ordinary shares of £0.01 each	1	1
18,000 D Ordinary shares of £0.01 each	-	-
	<u>25</u>	<u>25</u>

There are no non- equity shares in issue.

Notes to the Financial Statements

for the year ended 31 August 2005

17. SHARE CAPITAL (continued)

Rights Of Shares

Income

First, the preferred ordinary shares generate a fixed cumulative cash dividend (fixed dividend) of six per cent of the issue price per annum. Next, subject to payment of the fixed dividend, the preferred ordinary shares generate a cumulative cash dividend of ten per cent of the adjusted net profit for a financial year. No other distribution of profits may be made until the investor loan notes have been repaid.

Return of Capital

First, to holders of preferred ordinary shares to the value of the subscription price. Next, to holders of ordinary shares to the value of subscription price. The balance distributed between holders of Preferred ordinary shares and Ordinary shares is pari passu as if the same constituted one class of shares.

Voting

All shares rank equally in respect of voting. There are certain conditions within the Articles of Association; which if broken entitle the owners of Preferred ordinary shares to exercise three votes per share instead of one.

18. RESERVES

Group	Appropriation reserve £'000	Share premium £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 September 2004	5	575	65	(7,359)
Loss for the year	-	-	-	(1,192)
Transfer to appropriation reserve	3	-	-	(3)
Depreciation of revalued assets	-	-	(1)	1
At 31 August 2005	8	575	64	(8,553)

Company	Appropriation reserve £'000	Share premium £'000	Profit and loss account £'000
At 1 September 2004	5	575	(3,774)
Loss for the year	-	-	(2,359)
Transfer to appropriation reserve	3	-	(3)
At 31 August 2005	8	575	(6,136)

Notes to the Financial Statements

for the year ended 31 August 2005

19. SHAREHOLDERS' FUNDS

	Group		Company	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Loss for the financial year	(1,192)	(4,097)	(2,359)	(2,002)
Increase to deficit to shareholders' funds	(1,192)	(4,097)	(2,359)	(2,002)
Opening deficit to shareholders' funds	(6,689)	(2,592)	(3,169)	(1,167)
Closing deficit to shareholders' funds	(7,881)	(6,689)	(5,528)	(3,169)

20. CONTINGENT LIABILITIES

There is a contingent liability to repay a revenue grant from Scottish Enterprise Forth Valley in the event of the company breaching certain conditions under which the assistance was given.

The directors consider that repayment of this grant is unlikely.

21. FINANCIAL COMMITMENTS

Operating lease commitments

	Group		Company	
	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Land and buildings, leases expiring				
within one year	666	666	-	-
one to five years	18	18	-	-
beyond five years	1,115	485	-	-
	1,799	1,169	-	-
Other leases expiring				
within one year	-	25	-	-
one to five years	-	-	-	-
beyond five years	-	-	-	-
	-	25	-	-

Capital commitments

	31 August 2005 £'000	31 August 2004 £'000	31 August 2005 £'000	31 August 2004 £'000
Expenditure authorised, not contracted for	-	-	-	-

Notes to the Financial Statements

for the year ended 31 August 2005

22. PARENT UNDERTAKING

The immediate parent company is Lloyds Development Capital Ltd. The ultimate parent undertaking is Lloyds TSB Group plc, which is registered in England and Wales.

It's group accounts are available to the public on payment of the appropriate fee, from Companies House, Crown Way, Maindy, Cardiff, CF4 3UZ.

23. RECONCILIATION OF OPERATING PROFIT / (LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Operating profit / (loss)	1,631	(2,254)
Depreciation and amortisation	2,723	2,546
Increase in debtors	(2,389)	(1,290)
Increase/(decrease) in creditors	2,190	(918)
Government grants released to income	(127)	(81)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	4,028	(1,997)
	<hr/>	<hr/>

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Year ended 31 August 2005 £'000	Year ended 31 August 2004 £'000
Increase in cash	2,227	131
Cash inflow from increase in debt	(1,031)	(3,280)
	<hr/>	<hr/>
Decrease/(increase) in net debt from cash flows	1,196	(3,149)
	<hr/>	<hr/>
Other movements	(237)	(237)
	<hr/>	<hr/>
Decrease/(increase) in net debt	959	(3,386)
	<hr/>	<hr/>
Net debt at 31 August 2004	(28,292)	(24,906)
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Net debt at 31 August 2005	(27,333)	(28,292)
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Notes to the Financial Statements

for the year ended 31 August 2005

25. ANALYSIS OF NET DEBT

	1 September 2004 £'000	Cash flow £'000	Other movements £'000	31 August 2005 £'000
Cash at bank and in hand	775	2,227	-	3,002
Bank overdraft	-	-	-	-
Net cash	775	2,227	-	3,002
Bank loans	(14,185)	(1,266)	(92)	(15,543)
Vendor loans	(2,761)	-	(11)	(2,772)
Investor loans	(11,498)	-	(132)	(11,630)
Finance leases	(427)	235	-	(192)
Other	(196)	-	(2)	(198)
Borrowings	(29,067)	(1,031)	(237)	(30,335)
Net debt	(28,292)	1,196	(237)	(27,333)

26. POST BALANCE SHEET EVENTS

On 25 November 2005, the Board approved a rights issue that raised an additional £11.2m in new share capital, represented by the issue of 11,195,350 new £1 Preference shares and 77,745,489 new £0.0001 A Preferred Ordinary shares. These funds have been used to repay certain of the Investor loan notes, hence reducing borrowings and increasing the net asset position.