

3077786

Star Technology Services Limited

Report and Financial Statements

31 July 2005

ERNST & YOUNG



Star Technology Services Limited

Registered No: 3077786

Directors

B V S White
J C White
S C Chandler

Secretary

S C Chandler

Auditors

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

Bankers

Lloyds TSB Bank plc
Threadneedle Street Branch
39 Threadneedle Street
London
EC2R 8AU

Registered Office

1240 Lansdowne Court
Gloucester Business Park
Gloucester
GL3 4AB

Directors' report

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

Principal activity

The principal activity of the company is that of providing managed technology services.

Business review

The profit for the year after taxation amounted to £3,922,000 (2004: £6,906,000). The directors do not recommend the payment of a dividend (2004: £nil).

Research and development

Expenditure on research and development amounted to £1,025,000 (2004: £1,132,000).

Directors and their interests

The directors who served during the year were as follows:

B V S White*

J C White*

S C Chandler*

* Director of parent undertaking

No director held any beneficial interest in the shares of Star Technology Services Ltd during the year. The interests of the directors in the share capital of the parent undertakings are disclosed in that company's financial statements.

During the year, and up to the date of approval of the financial statements, the group had in place third party indemnity provision for the benefit of all the directors of the company.

Employment policy

The Company had 281 employees at 31 July 2005. There are well-established and effective arrangements for communicating the company's results and significant business issues to employees through email, the company's intranet and in-house publications.

The company takes a positive approach to equality and diversity and encourages its partners to do the same. By tapping into the talent and skills available in all groups and communities in which we operate, the company underpins the lasting success of its enterprise. We achieve this by using appropriate recruitment and selection techniques, and by ensuring equality of employment opportunity and equal access to development opportunities.

The company is also committed to providing a work environment free from harassment and discrimination and remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find appropriate alternative jobs for those who are unable to continue in their existing jobs because of disability. As with equality and diversity, the company encourages its partners to have a similar approach to these issues where company policies cannot be implemented directly.

Directors' report

Auditors

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

By order of the Board



Stephan Chandler
Director

Date: 25 May 2006

Statement of directors' responsibilities in respect of the financial statements

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report

to the members of Star Technology Services Limited

We have audited the company's financial statements for the year ended 31 July 2005 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 21. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

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

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

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

Basis of audit opinion

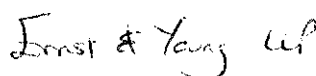
We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates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

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

Opinion

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

Ernst & Young LLP
Registered Auditor
Reading



Date: 28/5/06

Profit and Loss Account

for the year ended 31 July 2005

	Note	2005 £'000	2004 £'000
Turnover	2	41,732	36,322
Cost of sales		(14,904)	(12,257)
Gross profit		26,828	24,065
Administrative expenses		(21,695)	(17,890)
Operating profit	3	5,133	6,175
Net interest	4	(98)	(44)
Profit on ordinary activities before taxation		5,035	6,131
Tax (charge)/credit on profit on ordinary activities	6	(1,113)	775
Profit for the financial year transferred to reserves	15	3,922	6,906

There are no recognised gains or losses other than the profit stated above, therefore no separate statement of recognised gains and losses has been presented.

There are no differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

Balance sheet

as at 31 July 2005

	Note	2005 £'000	2005 £'000	2004 £'000	2004 £'000
Fixed assets					
Intangible assets	7		357		211
Tangible assets	8		8,824		5,156
Investments	9		682		682
			<u>9,863</u>		<u>6,049</u>
Current assets					
Debtors	10	19,000		10,757	
Cash at bank and in hand		2,230		5,220	
		<u>21,230</u>		<u>15,977</u>	
Creditors: amounts falling due within one year					
Creditors	11	(11,856)		(12,829)	
Deferred income		(2,896)		(2,524)	
		<u>(14,752)</u>		<u>(15,353)</u>	
Net current assets			6,478		624
Total assets less current liabilities			16,341		6,673
Creditors: amounts falling due after one year					
	12		(9,256)		(3,510)
			<u>7,085</u>		<u>3,163</u>
Capital and Reserves					
Called up share capital	14		4,001		4,001
Profit and loss account	15		3,084		(838)
Equity Shareholders' funds	15		<u>7,085</u>		<u>3,163</u>

Approved by the Board


Stephen Chandler
Director

Date: 25 May 2006

Notes to the financial statements

at 31 July 2005

1. Accounting policies

Basis of preparation

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

The principal accounting policies of the company are set out below.

The company is exempt from preparing consolidated financial statements on the grounds that it qualifies as an intermediate holding company under section 228 of the Companies Act 1985. These financial statements therefore present information about the company as an individual undertaking and not about its group.

The company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1.

Certain prior year items have been reclassified to reflect current year treatment.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts.

Where services are invoiced in advance of their provision, income is deferred over the service period.

Tangible fixed assets and depreciation

Depreciation is calculated on a straight-line basis to write-down the cost less estimated residual value of all tangible fixed assets by equal annual instalments over their expected useful lives. The rates generally applicable are:

Office equipment	-	33%
Motor vehicles	-	25%
Fixtures and fittings	-	25%
Computer equipment	-	33%

Computer equipment includes assets purchased for the fulfilment of future customer orders. New customer assets are not depreciated until they are allocated to a customer. If assets are not used by a customer within one year of purchase, they are written off in full.

Research and development

Research and development expenditure is written off to the profit and loss account in the period in which it is incurred, except that development expenditure incurred on an individual project is carried forward when its future recovery can be reasonably regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales for the related project.

Investments

Investments are included at cost, less amounts written off. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

Notes to the financial statements

at 31 July 2005

1. Accounting policies (continued)

Deferred tax

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

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful 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.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All other exchange differences are dealt with through the profit and loss account.

Group personal pension scheme

Pension costs charged against profits represent the amount of the contribution payable to the schemes in respect of accounting period.

MessageLabs Group Limited operates a defined contribution pension scheme for the benefit of certain employees of the company. The assets of the scheme are administered by Trustees in a fund independent from those of the Group.

2. Turnover

The turnover and profit on ordinary activities before taxation is attributable to the principal activity, providing managed technology services, all of which is delivered in the UK.

The company also acts as a lessor, leasing our computer equipment under operating leases. The aggregate rentals receivable for the year in respect of operating leases were £2,598,000 (2004: £1,715,000).

Notes to the financial statements

at 31 July 2005

3. Operating profit

The operating profit is stated after:

	2005 £'000	2004 £'000
Auditors' remuneration	25	14
Depreciation of owned fixed assets	1,811	1,546
Depreciation of assets held under finance leases and hire purchase contracts	1,004	432
Amortisation of intangible assets	147	46
Other operating lease rentals	1,092	1,398
Research and development	1,025	1,132

4. Net interest

	2005 £'000	2004 £'000
Finance charges in respect of finance leases	104	44
Other interest payable and similar charges	4	3
Interest receivable on bank balances	(10)	(3)
	98	44

5. Directors and employees

Staff costs during the year were as follows:

	2005 £'000	2004 £'000
Wages and salaries	9,425	7,798
Social security costs	1,141	976
Other pension costs	385	287
	10,951	9,061

The average number of employees of the company during the year was 281 (2004: 270).

The directors of the company are also directors of the holding company and fellow subsidiaries. The directors received total remuneration for the year of £728,000 (2004: £712,000), all of which was paid by the holding company. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the holding and fellow subsidiary companies.

Notes to the financial statements

at 31 July 2005

6. Tax on profit on ordinary activities

a) The tax credit represents:

	2005 £'000	2004 £'000
<i>Current tax:</i>		
UK corporation tax (see note 6 b))	1,084	(10)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(36)	881
Adjustment to the estimated recoverable amounts of deferred tax assets arising in the previous period	-	(1,643)
Adjustment in respect of prior years	65	(23)
Note 6 (c)	29	(785)
	<u>1,113</u>	<u>(775)</u>

b) The tax assessed for the year is lower than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained as follows:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	5,035	6,131
Profits multiplied by standard rate of corporation tax at 30% (2003: 30%)	1,511	1,840
<i>Effects of:</i>		
Expenses not deductible for tax purposes	26	10
Movement on provisions	(9)	(26)
Research and development claim	(17)	(7)
Excess of depreciation over capital allowances	27	(182)
Group relief	(372)	(1,013)
Losses brought forward used in year	-	(632)
Transfer of losses from group company	(69)	-
Adjustments in respect of previous periods	(13)	-
	<u>1,084</u>	<u>(10)</u>

c) Deferred tax

The deferred tax asset included in the balance sheet is as follows:

	2005 £'000	2004 £'000
Accelerated capital allowances	597	644
Short term timing differences	159	141
Included in debtors (note 10)	<u>756</u>	<u>785</u>

Notes to the financial statements

at 31 July 2005

6. Tax on profit on ordinary activities (continued)

	£'000
At 1 August 2004	785
Deferred tax charge in profit and loss account	(29)
At 31 July 2005	<u>756</u>

7. Intangible fixed assets

	<i>Development expenditure</i> £'000
<i>Cost:</i>	
At 31 July 2004	257
Additions	293
At 31 July 2005	<u>550</u>
<i>Amortisation:</i>	
At 31 July 2004	46
Provided in the year	147
At 31 July 2005	<u>193</u>
<i>Net book value:</i>	
At 31 July 2005	<u>357</u>
At 31 July 2004	<u>211</u>

Notes to the financial statements

at 31 July 2005

8. Tangible fixed assets

	<i>Office equipment</i> £'000	<i>Motor vehicles</i> £'000	<i>Fixtures and fittings</i> £'000	<i>Computer equipment</i> £'000	<i>Total</i> £'000
<i>Cost:</i>					
At 31 July 2004	9,478	65	1,653	6,134	17,330
Transfers In	246	-	171	-	417
Additions	2,763	-	236	3,254	6,253
Disposals	(2,299)	(65)	(825)	-	(3,189)
At 31 July 2005	10,188	-	1,235	9,388	20,811
<i>Depreciation:, 1</i>					
At 31 July 2004	5,987	60	1,405	4,722	12,174
Transfers In	124	-	61	-	185
Charge for the year	2,095	3	232	485	2,815
Disposals	(2,299)	(63)	(825)	-	(3,187)
At 31 July 2005	5,907	-	873	5,207	11,987
<i>Net book value:</i>					
At 31 July 2005	4,281	-	362	4,181	8,824
At 31 July 2004	3,491	5	248	1,412	5,156

Notes to the financial statements

at 31 July 2005

8. Tangible fixed assets (continued)

The figures stated above include assets held under finance leases and similar hire purchase contracts, as follows:

	<i>Office equipment £'000</i>	<i>Computer equipment £'000</i>	<i>Total £'000</i>
Net book value at 31 July 2005	2,854	1,413	4,267
Net book value at 31 July 2004	1,129	-	1,129
Depreciation provided in the year	972	40	1,012

9. Fixed asset investments

Total fixed asset investments comprise:

	<i>2005 £'000</i>	<i>2004 £'000</i>
Investment in subsidiary undertakings at cost and net book value	682	682

At 31 July 2005 Star Technology Services Limited held:

- 100% of the issued share capital of Star Managed Services Limited, a company incorporated in England and Wales
- 100% of the issued share capital of 4th Contact Limited, a company incorporated in England and Wales

Notes to the financial statements

at 31 July 2005

10. Debtors

	2005 £'000	2004 £'000
Trade debtors	2,851	2,132
Amounts owed by subsidiaries	1,523	2,310
Amounts owed by other group companies	10,889	3,191
Other debtors	784	653
Taxation recoverable	130	-
Prepayments and accrued income	2,067	1,686
Deferred tax (note 6c))	756	785
	<u>19,000</u>	<u>10,757</u>

Included in other debtors are amounts falling due after more than one year of £nil (2004: £175,000).

11. Creditors: amounts falling due within one year

	2005 £'000	2004 £'000
Trade creditors	3,701	5,619
Amounts owed to subsidiaries	1,165	1,587
Amounts owed to other group companies	34	2,383
Corporation tax	1,097	16
Social security and other taxes	590	561
Other creditors	42	217
Accruals	2,630	2,005
Amounts due under finance leases	2,597	441
	<u>11,856</u>	<u>12,829</u>

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

	2005 £'000	2004 £'000
Loans	7,900	3,500
Amounts due under finance leases	1,356	10
	<u>9,256</u>	<u>3,510</u>

Notes to the financial statements

at 31 July 2005

13. Borrowings

Borrowings are repayable as follows:

	2005 £'000	2004 £'000
Within one year		
Finance leases	2,597	441
After one and within two years		
Finance leases	763	10
After two and within five years		
Finance leases	593	-
Loans	7,900	3,500
	<u>11,853</u>	<u>3,951</u>

14. Share capital

	2005 £'000	2004 £'000
<i>Authorised, allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	3,461	3,461
Deferred shares of £1 each	540	540
	<u>4,001</u>	<u>4,001</u>

Notes to the financial statements

at 31 July 2005

15. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss account</i>	<i>Total share- holders' funds</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 August 2003	4,001	(7,744)	(3,743)
Profit for the year	-	6,906	6,906
At 31 July 2004	4,001	(838)	3,163
Profit for the year	-	3,922	3,922
At 31 July 2005	4,001	3,084	7,085

16. Capital commitments

The company had no capital commitments at 31 July 2005 or 31 July 2004.

17. Contingent liabilities

There were no contingent liabilities at 31 July 2005 or 31 July 2004.

18. Pensions

Defined Contribution scheme

The pension cost charge for the year was £385k (2004: £287k)

19. Leasing commitments

Operating lease payments amounting to £1,377k (2004: £1,488k) are due within one year. The leases to which these amounts relate expire as follows:

	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>2005</i>	<i>2005</i>	<i>2004</i>	<i>2004</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
In one year or less	73	15	332	18
Between one and five years	545	43	382	47
In five years or more	701	-	709	-
	1,319	58	1,423	65

Notes to the financial statements

at 31 July 2005

20. Transactions with directors and other related parties

As a wholly owned subsidiary of MessageLabs Group Limited, the company is exempt from the requirements of FRS 8 to disclose transactions with other members of the group headed by MessageLabs Group Limited.

21. Ultimate parent undertaking

The company is 100% owned by MessageLabs Group Limited, a company incorporated in England and Wales.

The largest and smallest group of undertakings for which group financial statements have been drawn up is that headed by MessageLabs Group Limited. Copies of MessageLabs Group Limited consolidated financial statements can be obtained from the Company Secretary at 1240 Lansdowne Court, Gloucester Business Park, Gloucester, GL3 4AB, or on our website at www.messagelabsgroup.com.