Montal Computer Services Limited

FINANCIAL STATEMENTS

for the year ended

30 September 2003



Company Registration No. 2167037

Montal Computer Services Limited
OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

A D Monteith
P R J Alexander

SECRETARY

A D Monteith

REGISTERED OFFICE

Blackbrook House
Dorking Business Park
Station Road
Dorking
Surrey
RH4 1HJ

AUDITORS

Baker Tilly
Chartered Accountants
International House
Queens Road
Brighton
East Sussex
BN1 3XE

The directors submit their report and financial statements of Montal Computer Services Limited for the year ended 30 September 2003.

PRINCIPAL ACTIVITY

The principal activity of the company during the year was the provision of complete IT solutions for businesses.

REVIEW OF THE BUSINESS

The results for the period and the financial position of the company are shown in the attached financial statements.

Currently, the company is trading profitably and is continuing to meet its obligations both under the CVA agreement and to its suppliers.

RESULTS AND DIVIDENDS

The trading results for the year, and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

THE DIRECTORS AND THEIR INTERESTS IN SHARES OF THE COMPANY

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £1 each	
	At 30 September 2003	At 1 October 2002
A D Monteith	–	–
P R J Alexander	–	–

No rights to subscribe for shares in, or debentures of, the company were granted to or exercised by either director during the year.

DONATIONS

During the year the company made the following contributions:

	Year to 30 September 2003	Period from 1 May 2001 to 30 September 2002
	£	£
Charitable	635	–

AUDITORS

Baker Tilly Chartered Accountants was appointed as auditors after 30 September 2003 to fill a causal vacancy. A resolution to reappoint them, as auditors will be put forward to the members at the annual general meeting.

By order of the board

P R J Alexander
Director

23 June 2004

DIRECTORS' RESPONSIBILITIES IN THE PREPARATION OF 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:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and estimates that are reasonable and prudent;

c. 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 requirements of 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 MONTAL COMPUTER SERVICES LIMITED

We have audited the financial statements on pages 6 to 18.

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 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of opinion
We conducted our audit in accordance with 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 the company's affairs at 30 September 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Baker Tilly

BAKER TILLY

Registered Auditor
Chartered Accountants
International House
Queens Road
Brighton
East Sussex
BN1 3XE

24 June 2004

Montal Computer Services Limited

PROFIT AND LOSS ACCOUNT
for the year ended 30 September 2003

	Notes	Year to 30 Sep 03 £	Period from 1 May 01 to 30 Sep 02 £
TURNOVER	1	4,557,175	7,788,239
Cost of sales		1,939,555	4,472,863
Gross profit		2,617,620	3,315,376
Administrative expenses		2,487,111	4,804,097
OPERATING PROFIT/(LOSS)	2	130,509	(1,488,721)
Loss on disposal of discontinued operations		–	(7,509)
Cost of restructuring the company	5	(43,430)	(240,188)
		87,079	(1,736,418)
Interest receivable		–	838
Interest payable	6	(21,345)	(53,618)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		65,734	(1,789,198)
Taxation	7	–	–
RETAINED PROFIT/(LOSS) FOR THE FINANCIAL YEAR		65,734	(1,789,198)

The operating profit/loss for the year arises from the company's continuing operations.

Montal Computer Services Limited

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 30 September 2003

	Year to 30 Sep 03 £	Period from 1 May 01 to 30 Sep 02 £
Profit/(loss) for the financial year	65,734	(1,789,198)
	65,734	(1,789,198)
Prior year adjustment (see note 8)	–	(776,916)
Total recognised gains and losses relating to the year	65,734	(2,566,114)

Montal Computer Services Limited

BALANCE SHEET

30 September 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Tangible assets	9	5,571	54,708
CURRENT ASSETS			
Stocks	10	147,694	145,319
Debtors	11	824,709	1,197,049
Cash at bank		83,123	157,819
		1,055,526	1,500,187
CREDITORS			
Amounts falling due within one year	12	769,588	397,402
NET CURRENT ASSETS		285,938	1,102,785
TOTAL ASSETS LESS CURRENT LIABILITIES		291,509	1,157,493
CREDITORS			
Amounts falling due after more than one year	13	1,266,056	1,884,517
		(974,547)	(727,024)
ACCRUALS AND DEFERRED INCOME	16	1,325,463	1,638,720
		(2,300,010)	(2,365,744)
CAPITAL AND RESERVES			
Called up equity share capital	19	12,000	12,000
Profit and loss account	20	(2,312,010)	(2,377,744)
DEFICIENCY	21	(2,300,010)	(2,365,744)

These financial statements were approved by the directors on the 23 June 2004 and are signed on their behalf by:

P R J Alexander

Director

Montal Computer Services Limited

CASH FLOW STATEMENT

for the year ended 30 September 2003

	Notes	Year to 30 Sep 03 £	Period from 1 May 01 to 30 Sep 02 £
Net cash flow from operating activities	22	258,774	66,230
Returns on investments and servicing of finance	22	(21,345)	(52,780)
Capital expenditure and financial investment	22	–	(38,441)
CASH INFLOW/(OUTFLOW) BEFORE FINANCING		237,429	(24,991)
Financing	22	283,571	(12,303)
INCREASE/(DECREASE) IN CASH IN THE PERIOD		521,000	(37,294)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		2003 £	2002 £
Increase/(decrease) in cash in the period		521,000	(37,294)
Net cash (inflow) from/outflow from debt and lease financing		(283,571)	12,303
CHANGE IN NET DEBT	22	237,429	(24,991)
NET DEBT AT 1 OCTOBER 2002	22	(438,835)	(413,844)
NET DEBT AT 30 SEPTEMBER 2003	22	(201,406)	(438,835)

BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared on the basis that the company will continue to trade as a going concern. This is dependent on the success of the creditors voluntary arrangement that the company is currently in. In the event that the company is found to be in default of the terms stated in the creditors voluntary arrangement, the Supervisor shall petition for the winding up of the company.

TURNOVER

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax. Turnover relating to maintenance contracts is recognised on a straight line basis over the life of the contract.

FIXED ASSETS

All fixed assets are initially recorded at cost.

DEPRECIATION

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property	- over the term of the lease
Computer equipment	- 33% straight line
Test and office equipment	- 15% - 25% straight line

STOCKS

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

HIRE PURCHASE AGREEMENTS

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis.

OPERATING LEASE AGREEMENTS

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

PENSION COSTS

The company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

DEFERRED TAXATION

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

DEFERRED INCOME

Deferred income arises on engineering maintenance contracts paid in advance.

1 TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the company.

An analysis of turnover is given below:

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
United Kingdom	4,557,175	7,788,239

2 OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging/(crediting):

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Depreciation of owned fixed assets	34,297	138,362
Depreciation of assets held under hire purchase agreements	14,840	12,793
Loss on disposal of fixed assets	–	77,595
Auditors' remuneration		
- as auditors	13,200	16,500
Operating lease costs:		
Rent of premises	142,362	151,960
Plant and equipment	74,183	76,543

3 PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	No	No
Sales and marketing	13	16
Engineering	18	22
Administration	7	14
Technical support	12	14
	50	66

The aggregate payroll costs of the above were:

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Wages and salaries	1,239,498	2,340,720
Social security costs	127,598	252,825
Other pension costs	28,702	54,474
	1,395,798	2,648,019

4 DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Emoluments receivable	74,167	184,174
Value of company pension contributions to money purchase schemes	8,345	20,275
	82,512	204,449

The number of directors who are accruing benefits under company pension schemes was as follows:

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	No	No
Money purchase schemes	2	3

5 COST OF RESTRUCTURING

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Cost of restructuring company	43,430	240,188

6 INTEREST PAYABLE

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Interest payable on bank borrowing	19,133	41,607
Finance charges	175	6,948
Other similar charges payable	2,037	5,063
	21,345	53,618

7 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES

Factors affecting current tax charge

The tax assessed on the profit/(loss) on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 20% (2002 - 20%).

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Profit/(loss) on ordinary activities before taxation	65,734	(1,789,198)
Profit/(loss) on ordinary activities by rate of tax	13,147	(357,840)
Expenses not deductible for tax purposes	19,453	18,475
Movement in unprovided deferred tax	(32,600)	339,365
Total current tax	-	-

7 TAX ON PROFIT/(LOSS) ON ORDINARY ACTIVITIES *(continued)*

Factors that may affect future tax charges

The company has estimated trading losses carried forward as at 30 September 2003 of £1,475,512 available for offset against future trading profits. The deferred tax asset not recognised in the accounts, on the grounds of prudence, is £318,846 (2002: £351,446).

8 PRIOR YEAR ADJUSTMENT

A prior year adjustment was made in the period 1 May 2001 to 30 September 2002 to reflect the fact that income arising from maintenance contracts paid in advance had been incorrectly recognised in the year ended 30 April 2001. This had the effect of reducing profit for the year to 30 April 2001 by £776,916.

9 TANGIBLE FIXED ASSETS

	Leasehold property £	Computer equipment £	Test and office equipment £	Total £
Cost				
At 1 October 2002 and 30 September 2003	138,707	106,100	107,435	352,242
Depreciation				
At 1 October 2002	116,948	87,545	93,041	297,534
Charge for the year	17,407	17,841	13,889	49,137
At 30 September 2003	134,355	105,386	106,930	346,671
Net book value				
At 30 September 2003	4,352	714	505	5,571
At 30 September 2002	21,759	18,555	14,394	54,708

Hire purchase agreements
Included within the net book value of £5,571 is £Nil (2002 - £14,840) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £14,840 (2002 - £12,793).

10 STOCKS

	2003 £	2002 £
Engineering stock	112,941	112,273
Goods for resale	34,753	33,046
	147,694	145,319

11 DEBTORS

	2003 £	2002 £
Trade debtors	694,120	995,254
Other debtors	1,772	1,086
Prepayments and accrued income	128,817	200,709
	824,709	1,197,049

12 CREDITORS: Amounts falling due within one year

	2003	2002
	£	£
Creditors voluntary arrangement (see note 23)	180,000	180,000
Bank loans and overdrafts	180,000	178,723
Trade creditors	232,875	–
Other taxation and social security	78,716	–
Hire purchase agreements	–	958
Other creditors	97,997	37,721
	769,588	397,402

13 CREDITORS: Amounts falling due after more than one year

	2003	2002
	£	£
Bank loans and overdrafts	104,529	–
Creditors voluntary arrangement (see note 23)	1,161,527	1,884,517
	1,266,056	1,884,517

The bank loans are secured by way of a fixed charge over the assets of the company. The bank loans all fall due within five years. The bank also holds an unlimited Inter Company Composite Cross Guarantee in respect of all monies due or to become due by all group companies and by Montal Technology Limited (a dormant associated company controlled by the directors, A D Monteith and P R J Alexander).

In addition, under the revised facilities provided as a result of the CVA, the directors have given the bank a top slice guarantee for borrowing in excess of £100,000 up to a maximum of £60,000 plus interest and charges.

14 CREDITORS - CAPITAL INSTRUMENTS

Creditors include finance capital which is due for repayment as follows:

	2003	2002
	£	£
Amounts repayable:		
In one year or less or on demand	180,000	–
In more than one year but not more than two years	104,529	–
	284,529	–

15 COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows:

	2003	2002
	£	£
Amounts payable within 1 year	–	958
	–	958

16 ACCRUALS AND DEFERRED INCOME

	2003	2002
	£	£
Falling due within one year:		
Accruals and deferred income	1,325,463	1,638,720

17 COMMITMENTS UNDER OPERATING LEASES

At 30 September 2003 the company had annual commitments under non-cancellable operating leases as set out below.

	2003		2002	
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
Operating leases which expire:				
Within 1 year	–	91,481	2,010	6,652
Within 2 to 5 years	–	54,178	164,000	194,408
After more than 5 years	105,313	–	–	–
	105,313	145,659	166,010	201,060

18 RELATED PARTY TRANSACTIONS

The ultimate parent undertaking of the company is Montal Group Limited, a company incorporated in England and Wales. Montal Group Limited is controlled by the directors, A D Monteith and P R J Alexander.

The company has taken advantage of the exemption conferred by Financial Reporting Standard 8 'Related Party Disclosures' not to disclose transactions with members of the group headed by Montal Group Limited on the grounds that at least 90% of the voting rights in the company are controlled within that group and the company is included in consolidated financial statements.

The largest and smallest group in which the results of the company are consolidated is that headed by Montal Group Limited. The consolidated accounts of this company are available to the public and may be obtained from the Registrar of Companies. No other group accounts include results of this company.

The directors of Montal Computer Services Limited are also partners of Montal Computer Services. Transactions between these entities for the year totalled £122,000 (2002: £241,920) for goods and services supplied by the partnership. Included in other debtors is an amount of £1,772 due to Montal Computer Services Limited from the partnership (2002: £1,086).

19 SHARE CAPITAL

	2003	2002
	£	£
Authorised:		
100,000 Ordinary shares of £1 each	100,000	100,000

	2003	2002
	£	£
Allotted, called up and fully paid:		
12,000 Ordinary shares of £1 each	12,000	12,000

20 PROFIT AND LOSS ACCOUNT

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Original balance brought forward	(2,377,744)	188,370
Prior year adjustment (note 8)	–	(776,916)
Restated balance brought forward	(2,377,744)	(588,546)
Retained profit/(accumulated loss) for the financial year	65,734	(1,789,198)
At 30 September 2003	(2,312,010)	(2,377,744)

21 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2003	2002
	£	£
Profit/(loss) for the financial year	65,734	(1,789,198)
Opening shareholders' equity (deficit)/funds	(2,365,744)	200,370
Prior year adjustment (see note 8)	–	(776,916)
	(2,365,744)	(576,546)
Closing shareholders' equity deficit	(2,300,010)	(2,365,744)

22 CASH FLOWS

a Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Operating profit/(loss)	130,509	(1,488,721)
Depreciation	49,137	151,155
Loss on disposal of fixed assets	–	77,595
(Increase)/decrease in stocks	(2,375)	819,406
Decrease in debtors	372,340	244,883
Increase/(decrease) in creditors	(247,407)	502,100
Re-organisation costs	(43,430)	(240,188)
Net cash inflow from operating activities	258,774	66,230

b Analysis of cash flows for headings netted in the cash flow

Returns on investment and servicing of finance

	Year to 30 Sep 03	Period from 1 May 01 to 30 Sep 02
	£	£
Interest received	–	838
Interest paid	(21,170)	(46,670)
Interest element of hire purchase	(175)	(6,948)
Net cash outflow from returns on investments and servicing of finance	(21,345)	(52,780)

22 CASH FLOWS *(continued)*

Capital expenditure

	Year to 30 Sep 03 £	Period from 1 May 01 to 30 Sep 02 £
Payments to acquire fixed assets	–	(39,596)
Receipts from sale of fixed assets	–	1,155
Net cash outflow from capital expenditure	–	(38,441)

Financing

	Year to 30 Sep 03 £	Period from 1 May 01 to 30 Sep 02 £
Repayment of bank loans	(165,071)	-
New bank loans	449,600	-
Capital element of hire purchase	(958)	(12,303)
Net cash inflow/(outflow) from financing	283,571	(12,303)

c Analysis of net debt

	At 1 Oct 2002 £	Cash flows £	At 30 Sep 2003 £
Cash in hand and at bank	157,819	(74,696)	83,123
Bank overdrafts	(595,696)	595,696	-
	(437,877)	521,000	83,123
Debt due within 1 year	-	(180,000)	(180,000)
Debt due after 1 year	-	(104,529)	(104,529)
Hire purchase agreements	(958)	958	-
	(958)	(283,571)	(284,529)
Total	(438,835)	237,429	(201,406)

23 CREDITORS VOLUNTARY ARRANGEMENT

As of 30 September 2002, the company entered into a creditors voluntary arrangement, whereby all preferential and unsecured creditors existing at this date would receive 100 pence and 43 pence in the pound respectively.

In order to meet the terms of the arrangement, the company will make monthly contributions of £15,000 over a period of five years totalling £900,000. As at 30 September 2003, contributions totalling £183,000 had been made.

By the closing date of 30 March 2003, total claims of £2,064,517 had been received, and these are currently in the process of being verified. Included in this claim was £416,972 which related to a bank overdraft and has since been converted into a loan.

Note 12 and 13 to the accounts show £1,341,527 falling within the CVA. As at 30 September 2003 the payments required to settle this debt stand at £717,000, provided that all the terms of the CVA are met.