

Exponential-E Limited
Financial statements
For the year ended 31 January 2006



Company No. 4499567

Company information

Company registration number :	4499567
Registered office :	Frazer House 32-38 Leaman Street London E1 8EW
Directors :	L F Wade M R Field A Hobbins N H Milne M Bavisi M Sidhu H G Jones S Kingsley
Secretary :	M R Field
Bankers :	Bank of Scotland 6th Floor 155 Bishopgate London EC2M 3YB
Solicitors :	Beachcroft Wansbroughs 100 Fetter Lane London EC4A 1BN
Auditors :	Grant Thornton UK LLP Chartered Accountants Heron House Albert Square Manchester M60 8GT

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Report of the directors

The directors present their report together with the audited financial statements for the year ended 31 January 2006.

Principal activity

Exponential-E Limited is a communication solutions company specializing in the design, installation and support of Ethernet networks. It provides leading edge, Ethernet services to a wide range of blue chip national and international corporate clients.

Results

The profit for the year after taxation amounted to £267,985 (2005 restated : £60,056). The directors do not recommend the payment of a dividend and the profit has been transferred to reserves.

Directors

The present membership of the Board is set out below. All directors served throughout the year unless otherwise indicated.

	Ordinary shares of 5p each	
	2006 Number	2005 Number
L F Wade	* 312,550	312,550
M R Field	29,019	29,019
A Hobbins	207,774	207,774
N H Milne	54,250	54,250
M Bavisi	53,469	53,469
M Sidhu	122,869	122,869
H G Jones	5,000	—
S Kingsley (appointed 1 October 2005)	5,000	5,000

* Includes 99,484 shares held by Exponential-E.com Limited, a company controlled by L F Wade.

Share options

During the year ended 31 January 2006 the company granted share options to a number of directors and employees under two share option schemes, an Enterprise Management Incentive Scheme and an un-approved option scheme.

The number of share options held by the directors are listed below. There were no options exercised during the year.

	Number of options	
	2006	2005
L F Wade	3,138	—
M R Field	2,408	—
A Hobbins	853	—
N H Milne	3,413	—
M Bavisi	1,706	—
H G Jones	5,853	—
S Kingsley	2,000	—

Statement of directors' responsibilities

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 these 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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 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.

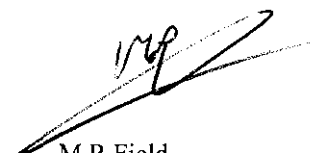
Auditors

Grant Thornton UK LLP were appointed as first auditors of the company in accordance with Section 385(3) of the Companies Act 1985, and offer themselves for reappointment.

Small company exemption

This report has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

BY ORDER OF THE BOARD



M R Field
Secretary

14 July 2006

Report of the independent auditors to the members of Exponential-E Limited

We have audited the financial statements of Exponential-E Limited for the year ended 31 January 2006 which comprise the principal accounting policies, the profit and loss account, the statement of total recognised gains and losses, the balance sheet and notes 1 to 15. These financial statements have been prepared in accordance with the Financial Reporting Standard for Smaller Entities (effective January 2005) and 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 directors' report and the financial statements in accordance with 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 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 other transactions is not disclosed.

We read the directors' report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Grant Thornton 

Report of the independent auditors to the members of Exponential-E Limited

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 January 2006 and of its profit for the year then ended;
- have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
MANCHESTER

14 July 2006

Principal accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The financial statements have been prepared in accordance with the Financial Reporting Standards for Smaller Entities (effective January 2005).

Changes in accounting policies

During the year the directors have changed the accounting policies of the company in order to comply with United Kingdom Accounting Standards, as follows :

- Revenue in respect of network installations and rental is now recognised in accordance with FRS 5 Application Note G, whereas previously revenue was recognised at the time of invoicing;
- Network assets are now capitalised as fixed assets in accordance with FRS 15, whereas previously the cost of these assets was written off to the profit and loss account as incurred.

The impact of these changes in accounting policies are disclosed in note 5 to the financial statements. In addition to the above, the company has adopted the following Financial Reporting Standards :

- FRS 21 "Events after the balance sheet date";
- FRS 25 "Financial Instruments : Disclosure and Presentation".

The directors consider that the adoption of these Financial Reporting Standards has had no impact on either the current year or prior year financial statements.

Otherwise, the principal accounting policies of the company have remained unchanged from the previous year and are set out below. The directors have reviewed the accounting policies in accordance with FRS 18 and consider them to be the most appropriate to the company's circumstances.

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT. Turnover from network installations is recognised on completion of the installation and in the same period as the related costs. Turnover from network rental and maintenance/support is recognised evenly over the period in which the service is provided to the customer.

Goodwill

Purchased goodwill, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life.

Tangible fixed assets and depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset over its expected life. The rates generally applicable are as follows :

Plant and equipment	12½ – 25% on cost
Office equipment	25% on cost

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised 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.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company 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 currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

Contributions to pension schemes

Defined contribution schemes

The pension costs charged against profits represent the amount of the contributions payable to the schemes in respect of the accounting period.

Cash flow statement

The company has taken advantage of the exemption provided by FRS 1 and has not prepared a cash flow statement on the grounds that it is a small-sized company within the meaning of the Companies Act 1985.

Profit and loss account

	Note	2006 £	Restated 2005 £
Turnover – continuing operations	1	4,188,526	2,565,578
Cost of sales		<u>(2,034,439)</u>	<u>(1,027,269)</u>
Gross profit		2,154,087	1,538,309
Administrative expenses		<u>(1,795,863)</u>	<u>(1,427,936)</u>
Operating profit – continuing operations		358,224	110,373
Interest payable and similar charges	3	<u>(80,239)</u>	<u>(47,762)</u>
Profit on ordinary activities before taxation	1	277,985	62,611
Tax on profit on ordinary activities	4	<u>(10,000)</u>	<u>(2,555)</u>
Profit for the financial year	12	<u>267,985</u>	<u>60,056</u>

Statement of total recognised gains and losses

	Note	2006 £	Restated 2005 £
Profit for the financial year		267,985	60,056
Prior year adjustments	5	<u>(463,506)</u>	–
Total gains and losses recognised since last financial statements		<u>(195,521)</u>	<u>60,056</u>

The accompanying notes form part of these financial statements.

Balance sheet

	Note	2006 £	Restated 2005 £
Fixed assets			
Intangible assets	6	3,000	6,000
Tangible assets	7	1,724,550	1,034,791
		<u>1,727,550</u>	<u>1,040,791</u>
Current assets			
Debtors	8	876,917	657,226
Cash at bank and in hand		589,952	177,624
		<u>1,466,869</u>	<u>834,850</u>
Creditors: amounts falling due within one year	9	<u>(1,447,492)</u>	<u>(986,067)</u>
Net current assets/(liabilities)		<u>19,377</u>	<u>(151,217)</u>
Total assets less current liabilities		<u>1,746,927</u>	<u>889,574</u>
Creditors : amounts falling due after more than one year	10	<u>(273,462)</u>	<u>(151,188)</u>
Deferred income		<u>(1,109,898)</u>	<u>(655,304)</u>
Net assets		<u><u>363,567</u></u>	<u><u>83,082</u></u>
Capital and reserves			
Called up share capital	11	51,433	51,183
Share premium account	12	655,975	643,725
Profit and loss account	12	<u>(343,841)</u>	<u>(611,826)</u>
Equity shareholders' funds	13	<u><u>363,567</u></u>	<u><u>83,082</u></u>

These financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies and with the Financial Reporting Standard for Smaller Entities (effective January 2005).

The financial statements were approved by the Board of Directors on 14 July 2006.



L F Wade

Director

Notes to the financial statements

1 Turnover and profit on ordinary activities before taxation

The turnover and profit on ordinary activities before taxation are attributable to the principal activity of the company, and arise wholly within the United Kingdom.

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

	2006 £	Restated 2005 £
Depreciation:		
– owned assets	129,747	100,582
– assets held under finance leases	82,977	23,300
Operating lease payments – other	7,124	7,124
Auditors remuneration – audit services	12,500	–

2 Directors

Remuneration in respect of the directors was as follows :

	2006 £	2005 £
Emoluments and benefits in kind	452,485	275,347

Remuneration in respect of the highest paid director was as follows :

	2006 £	2005 £
Emoluments and benefits in kind	98,062	63,295

3 Interest payable and similar charges

	2006 £	Restated 2005 £
On bank loans and overdrafts	7,425	–
Finance lease interest	72,814	47,762
	80,239	47,762

4 Tax on profit on ordinary activities

The tax charge represents:

	2006 £	2005 £
UK corporation tax at 30% (2005 : 30%)	–	2,555
Adjustment in respect of prior years	10,000	–
	10,000	2,555

Tax on profit on ordinary activities (continued)

The tax charge has been reduced by £83,395 as a result of brought forward trading losses and other permanent and short term timing differences. Unrelieved trading losses of approximately £347,000 remain available to offset against future trading profits.

The potential deferred tax asset in respect of unrelieved trading losses has not been recognised in the financial statements.

5 Prior year adjustments

The prior year adjustments have arisen due to the changes in accounting policies in order to comply with United Kingdom Accounting Standards, as disclosed within the principle accounting policies. The effect of the changes is as follows :

	2005 As previously reported £	Prior year adjustment £	2005 As restated £
Profit and loss account			
Turnover	2,875,533	(309,955)	2,565,578
Cost of sales	(1,515,234)	487,965	(1,027,269)
Gross profit	1,360,299	178,010	1,538,309
Administrative expenses	(1,346,519)	(81,417)	(1,427,936)
Interest payable and similar charges	—	(47,762)	(47,762)
Profit on ordinary activities before taxation	13,780	48,831	62,611
	2005 As previously reported £	Prior year adjustment £	2005 As restated £
Balance sheet			
Tangible fixed assets	527,959	506,832	1,034,791
Creditors: amounts falling due within one year	(822,221)	(163,846)	(986,067)
Creditors: amounts falling due after more than one year	—	(151,188)	(151,188)
Deferred income	—	(655,304)	(655,304)
Equity shareholders' funds	546,588	(463,506)	83,082

6 Intangible fixed assets

	Goodwill £
Cost	
At 1 February 2005 and 31 January 2006	<u>12,000</u>
Amortisation	
At 1 February 2005	6,000
Provided during the year	3,000
At 31 January 2006	<u>9,000</u>
Net book amount	
At 31 January 2006	<u>3,000</u>
At 31 January 2005	<u>6,000</u>

7 Tangible fixed assets

	Plant and equipment £	Office equipment £	Total £
Cost			
At 1 February 2005 – as previously reported	650,631	37,667	688,298
Prior year adjustment	512,222	–	512,222
At 1 February 2005 – as restated	1,162,853	37,667	1,200,520
Additions	865,142	37,341	902,483
At 31 January 2006	<u>2,027,995</u>	<u>75,008</u>	<u>2,103,003</u>
Depreciation			
At 1 February 2005 – as previously reported	145,956	14,383	160,339
Prior year adjustment	5,390	–	5,390
At 1 February 2005 – as restated	151,346	14,383	165,729
Provided during the year	199,733	12,991	212,724
At 31 January 2006	<u>351,079</u>	<u>27,374</u>	<u>378,453</u>
Net book amount			
At 31 January 2006	<u>1,676,916</u>	<u>47,634</u>	<u>1,724,550</u>
At 31 January 2005 – as restated	<u>1,011,507</u>	<u>23,284</u>	<u>1,034,791</u>

8 Debtors

	2006 £	2005 £
Trade debtors	629,437	478,693
Prepayments and accrued income	228,700	152,500
Other debtors	18,780	26,033
	<u>876,917</u>	<u>657,226</u>

9 Creditors : amounts falling due within one year

	2006 £	Restated 2005 £
Bank loans	125,000	—
Trade creditors	852,158	548,469
Social security and other taxes	28,271	10,923
Other creditors	501	131,029
Accruals and deferred income	116,947	7,800
Amounts due under finance leases	324,615	287,846
	<u>1,447,492</u>	<u>986,067</u>

Bank loans and amounts due under finance leases totalling £449,615 (2005 : £287,846) are secured.

10 Creditors : amounts falling due after more than one year

	2006 £	Restated 2005 £
Bank loans	72,500	—
Amounts due under finance leases	200,962	151,188
	<u>273,462</u>	<u>151,188</u>

Bank loans and amounts due under finance leases totalling £273,462 (2005 : £151,188) are secured.

11 Share capital

	2006 £	2005 £
Authorised		
2,000,000 Ordinary shares of 5p each	<u>100,000</u>	<u>100,000</u>
Issued		
1,028,663 (2005 : 1,023,663) Ordinary shares of 5p each	<u>51,433</u>	<u>51,183</u>

On 29 April 2005 the company issued 5,000 ordinary shares of 5p each for a cash consideration of £12,500. The difference between the consideration of £12,500 and the nominal value of the shares of £250 has been credited to the share premium account.

During the year the company granted options over 44,651 ordinary shares of 5p each of which 5,000 lapsed during the year, which left options outstanding over 39,651 shares at 31 January 2006.

12 Share premium account and reserves

	Share premium £	Profit and loss account £
At 1 February 2005 – as previously reported	643,725	(456,568)
Prior year adjustment	–	(155,258)
At 1 February 2005 – as restated	<u>643,725</u>	<u>(611,826)</u>
Profit for the financial year	–	267,985
Premium on issue of shares	<u>12,250</u>	<u>–</u>
At 31 January 2006	<u>655,975</u>	<u>(343,841)</u>

13 Reconciliation of movements in equity shareholders' funds

	2006 £	Restated 2005 £
Profit for the financial year	267,985	60,056
Issue of share capital	<u>12,500</u>	<u>–</u>
Net movement in equity shareholders' funds	<u>280,485</u>	<u>60,056</u>
Opening equity shareholders' funds	<u>83,082</u>	<u>23,026</u>
Closing equity shareholders' funds	<u>363,567</u>	<u>83,082</u>

14 Leasing commitments

Operating lease payments amounting to £7,124 (2005 : £7,124) are due within one year. The leases to which these amounts relate expire as follows:

	2006 £	2005 £
Between one and five years	<u>7,124</u>	<u>7,124</u>

15 Related party transactions

The directors have taken advantage of the exemption within FRS 8 not to disclose related party transactions on the basis that the company is applying the Financial Reporting Standard for Smaller Entities.