NETSOURCE LIMITED

Annual report and financial statements

Year ended 31 December 2005



Registered number: 03127929

NETSOURCE LIMITED

Annual report and financial statements for the year ended 31 December 2005

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Directors

Mr N J Paul
Mr R. Thomas

Secretary

Mrs M L Paul

Registered office

St James's Building
Oxford Street
Manchester
M1 6NT

Registered number

03127929

Auditors

BDO Stoy Hayward LLP
Commercial Buildings
11-15 Cross Street
Manchester
M2 1WE

NETSOURCE LIMITED

Report of the directors for the year ended 31 December 2005

The directors submit their report together with the audited financial statements for the year ended 31 December 2005.

Results and dividends

The profit and loss account is set out on page 5 and shows the profit for the year.

The directors recommend that a final ordinary dividend of £nil per share be proposed (2004 - £nil).

Principal activities, trading review and future developments

The principal activity of the company during the year consisted of the recruitment and placement of computing and network specialists. The directors are satisfied with the results for the year and expects a similar level of activity in the forthcoming year.

Director

The directors of the company during the year and their beneficial interests in the share capital of the company were:

	Ordinary shares of £1 each	
	31 December 2005	**31 December 2004**
Mr N J Paul	500	500
Mr R Thomas	-	-

There were no rights to subscribe for further shares in the company granted in the year to the directors.

R Thomas was appointed as a director on 12 December 2005.

Directors' responsibilities

The directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and 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 year. In preparing those financial statements, the director is 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;
- 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.

Auditors

A resolution to reappoint BDO Stoy Hayward LLP as auditors will be proposed at the next annual general meeting.

By order of the Board

Mrs M L Paul
Secretary

DATE 19th June 2006

Independent auditors' report to the shareholders of Netsource Limited

We have audited the financial statements of Netsource Limited for the year ended 31 December 2005 on pages 5 to 15 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described in that Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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.

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 December 2005 and of its profit for the year then ended; and

- have been properly prepared in accordance with the Companies Act 1985.

BDO STOY HAYWARD LLP
Chartered Accountants
and Registered Auditors
Manchester

Date: 22 June 2006

NETSOURCE LIMITED

Profit and loss account for the year ended 31 December 2005

	Note	2005 £	2004 £
Turnover	2	7,861,554	11,066,160
Cost of sales		6,534,890	9,527,111
Gross profit		1,326,664	1,539,049
Administrative expenses		1,057,461	1,129,912
Operating profit	3	269,203	409,137
Interest payable	6	18,624	9,317
Interest receivable		229	1,769
Profit on ordinary activities before taxation		250,808	401,589
Taxation on profit on ordinary activities	7	47,366	96,228
Profit for the financial year	16	203,442	305,361

All amounts relate to continuing activities.

All recognised gains and losses are included in the profit and loss account.

The notes on pages 8 to 15 form part of these financial statements.

NETSOURCE LIMITED

Balance sheet at 31 December 2005

	Note	2005		2004	
		£	£	£	£
Fixed assets					
Tangible assets	9		35,654		12,128
Investment	10		1		1
			35,655		12,129
Current assets					
Debtors	11	1,711,495		1,570,024	
Cash at bank and in hand		298,082		167,412	
		2,009,577		1,737,436	
Creditors: amounts falling due within one year	12	1,317,170		1,234,998	
Net current assets			692,407		502,438
Total assets less current liabilities			728,062		514,567
Creditors: amounts falling due greater than one year	13		10,053		-
Net assets			718,009		514,567
Capital and reserves					
Called up share capital	15		1,000		1,000
Profit and loss account	16		717,009		513,567
Equity shareholders' funds	17		718,009		514,567

These financial statements were approved by the Board on 19th June 2006

Mr N J Paul
Director

The notes on pages 8 to 15 form part of these financial statements.

NETSOURCE LIMITED

Cash flow statement for the year ended 31 December 2005

	Note	2005 £	2004 £
Net cash inflow from operating activities	20	94,297	265,294
Returns on investments and servicing of finance	21	(18,395)	(7,548)
Corporation tax paid		(96,759)	(133,179)
Capital expenditure	21	(43,350)	(3,493)
Equity dividends paid		-	(800,000)
Cash outflow before financing		(64,207)	(678,926)
Financing	21	18,936	(4,088)
Decrease in cash in the year	21	(45,271)	(683,014)

Reconciliation of net cash flow to movement in net debt (see note 21)

	2005 £	2004 £
Decrease in cash in the year	(45,271)	(683,014)
Cash flows from change in lease financing	(8,272)	(4,088)
New loans	27,208	-
Change in net funds arising from cash flows	(64,207)	(678,926)
Net debt at 1 January	(202,628)	476,298
Net debt at 31 December	(266,835)	(202,628)

The notes on pages 8 to 15 form part of these financial statements.

1 Accounting policies

The financial statements have been prepared under the historical cost convention, and are in accordance with applicable accounting standards. The following accounting policies, which have not changed in the year, have been applied:

Consolidation

The company is not required to prepare group accounts as it has taken advantage of the exemption conferred by section 248 of the Companies Act 1985 due to the group being small. The financial statements present information about the company as an individual undertaking, not its group.

Turnover

Turnover represents sales to external customers at invoiced amount less value added tax.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets, over their expected useful lives. It is calculated at the following rates:

Computer equipment	-	33% straight line
Fixtures and fittings	-	20% straight line

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief; and
- the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Leases and hire purchase contracts

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the year of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor. All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Hire purchase contracts are treated identically to finance leases.

1 Accounting policies *(continued)*

Pension costs

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year in which they become payable.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

2 Turnover

Turnover is wholly attributable to the company's principal activity predominantly in the United Kingdom.

3 Operating profit

	2005	2004
	£	£
This is arrived at after charging/(crediting):		
Depreciation of tangible fixed assets	19,824	16,104
Operating lease charges - other	63,266	67,752
Auditors' remuneration - audit services	8,950	7,950
Foreign exchange differences	1,535	4,915

4 Employees

	2005	2004
	£	£
Staff costs (including director) consist of:		
Wages and salaries	610,436	630,850
Social security costs	67,597	77,287
Other pension costs	30,000	30,000
	708,033	738,137

The average monthly number of employees during the year was 17 (2004 – 19).

4 Employees *(continued)*

In addition to the above costs, the costs in respect of contractors who are on the company's payroll are as follows:

	2005	2004
	£	£
Wages and salaries	52,131	94,066
Social security costs	5,901	10,209
	58,032	104,275

The average monthly number of contractors who were on the company's payroll during the year was 1 (2004 – 3).

The total wages and salaries costs to the company during the year, being the addition of wages and salaries cost of employees and contractors on the payroll is as follows:

	2005	2004
	£	£
Wages and salaries	662,567	724,916
Social security costs	73,498	87,496
Pension costs	30,000	30,000
	766,065	842,412

5 Director

	2005	2004
	£	£
Director's emoluments consist of:		
Remuneration as executive	113,800	113,159
Payments to defined contribution pension schemes	17,673	30,000
	131,473	143,159

The number of directors who were in a defined contribution pension scheme during the year was one (2004 - one).

6 Interest payable

	2005	2004
	£	£
Bank borrowings	16,988	8,581
Finance leases	1,636	736
	18,624	9,317

7 Taxation on profit on ordinary activities

	2005 £	2004 £
Based on profits for the year:		
UK Corporation tax	47,905	97,532
Over provision in prior year	(539)	(1,304)
	47,366	96,228

	2005 £	2004 £
Profit on ordinary activities before tax	250,808	401,589
Expected tax charge at 30% (2004 – 30%)	75,242	120,477
Effect of:		
Expenses not deductible for tax purposes	3,772	5,592
Depreciation in process of capital allowances	-	939
Adjustment to tax charge in respect of previous periods	(539)	(1,172)
Unprovided deferred tax	(2,836)	-
Rate difference	(27,734)	-
Marginal relief	-	(29,608)
	47,905	96,228

8 Dividends

	2005 £	2004 £
Interim paid nil per share (2004 - £800)	-	800,000

9 Tangible assets

	Computer equipment £	Fixtures and fittings £	Total £
Cost			
At 1 January 2005	160,911	19,160	180,071
Additions	43,350	-	43,350
At 31 December 2005	204,261	19,160	223,421
Depreciation			
At 1 January 2005	151,195	16,748	167,943
Provided for the year	18,820	1,004	19,824
At 31 December 2005	170,015	17,752	187,767
Net book value			
At 31 December 2005	34,246	1,408	35,654
At 31 December 2004	9,716	2,412	12,128

Included within the net book value of tangible fixed assets is £18,366 (2004 - £nil) relating to assets held under finance lease agreements and hire purchase contracts. The related depreciation charge for the year was £8,842 (2004 - £4,495).

10 Fixed asset investment

Investment in subsidiary undertaking

	£
Cost and net book value at beginning and end of year	1

The following was the subsidiary undertaking at the end of the year:

Name	Country of incorporation	Proportion of voting rights and ordinary share capital held	Nature of business
IT Source Limited	England and Wales	100%	Dormant

IT Source Limited has not traded since 14 December 1999.

11 Debtors

	2005	2004
	£	£
Amounts receivable within one year:		
Trade debtors	1,618,481	1,348,955
Accrued income	59,043	189,203
Prepayments	33,971	31,866
	1,711,495	1,570,024

12 Creditors: amounts falling due within one year

	2005	2004
	£	£
Bank overdraft (secured)	545,795	369,854
Trade creditors	529,915	680,284
Other creditors	172	3,108
Taxation and social security	141,720	53,899
Corporation tax	47,905	97,400
Obligations under finance lease and hire purchase contracts	9,069	186
Accruals	42,594	30,267
	1,317,170	1,234,998

The bank overdraft is secured by way of a debenture, giving a first charge over the assets of the company.

13 Creditors: amounts falling due after one year

	2005	2004
	£	£
Obligations under finance lease and hire purchase contracts	10,053	-

14 Deferred taxation

There is no unprovided deferred taxation.

15 Share capital

	Authorised		Allotted, called up and fully paid	
	Number 2005	Number 2004	2005	2004
	£	£	£	£
Ordinary shares of £1 each	1,200,000	100,000	1,000	1,000

During the year the authorised share capital of the company was increased to 1,200,000 ordinary shares of £1 each.

16 Reserves

	2005	2004
	£	£
At 1 January 2005	513,567	1,008,206
Profit for the year	203,442	305,361
Dividends	-	(800,000)
At 31 December 2005	717,009	513,562

17 Reconciliation of movements in equity shareholders' funds

	2005	2004
	£	£
Profit for the financial year	203,442	305,361
Dividends	-	(800,000)
Net addition/(decrease) to equity shareholders' funds	203,443	(494,639)
Opening equity shareholders' funds	514,567	1,009,074
Closing equity shareholders' funds	718,009	514,435

18 Pensions

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund, and amounted to £30,000 for the year (2004 - £30,000).

19 Commitments under operating leases

As at 31 December 2005, the company had annual commitments under non-cancellable operating leases as set out below:

	2005		2004	
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
Operating leases which expire:				
Within one year	-	-	-	893
In two to five years	-	4,771	29,000	6,764
After five years	41,000	1,040	-	-
	41,000	5,811	29,000	7,657

20 Reconciliation of operating profit to net cash inflow from operating activities

	2005 £	2004 £
Operating profit	269,204	409,269
Depreciation	19,824	16,104
(Increase)/decrease in debtors	(141,471)	275,203
Decrease in creditors	(53,260)	(435,282)
Net cash inflow from operating activities	94,297	265,294

21 Notes to the cash flow statement

i) Gross cash flows

	2005 £	2004 £
Returns on investments and servicing of finance		
Interest received	229	1,769
Interest paid	(16,988)	(8,581)
Interest element of hire purchase	(1,636)	(736)
	(18,395)	(7,548)
Capital expenditure		
Payments to acquire tangible fixed assets	(43,350)	(3,493)
Financing		
Finance lease repayments	(8,272)	(4,088)
New finance loans	27,208	-
	18,936	(4,088)

ii) Analysis of changes in net funds

	At 1 January 2005 £	New Loans £	Cash flow £	At 31 December 2005 £
Cash at bank and in hand	167,412	-	130,670	298,082
Overdraft	(369,854)	-	(175,941)	(545,795)
	(202,442)	-	(45,271)	(247,713)
Finance lease agreements and hire purchase contracts	(186)	(27,208)	8,272	(19,122)
	(202,628)	(27,208)	(36,999)	(266,835)