

NES Group Limited
and subsidiary undertakings

Annual report and financial statements
for the year ended 31 October 2005
together with directors' and independent auditors'
reports

Registered number: 3685787

Chief Executive's report

The year ended 31 October 2005 saw the Group produce a record operating profit performance of £6.0m (2004 - £4.4m) before goodwill amortisation¹ and exceptionals². Turnover increased to £152.0m, a rise of 7.8% on prior year whilst the overall Group Net Fee Income (gross profit) grew by 19.1% to £17.8m and gross profit margin improved to 11.7% (2004 - 10.6%). The conversion of Group Net Fee Income to Operating profit before amortisation¹ and exceptionals² rose from 29.6% to 33.7%.

During the year the Group was restructured into 3 trading divisions, UK Technical, Overseas Technical and IT/Accredited Training. The reorganisation brought together the UK technical engineering and rail businesses under a single management structure. All three trading divisions grew gross margins and operated profitability over the previous year which supported the record operating profit growth detailed above.

The continuing investment in Overseas Technical was rewarded with revenues increasing from under 14% of Group sales to over 20% during the year with operating profits nearly doubling (+95%) over the prior year.

UK Technical experienced a 13% rise in operating profits despite the difficulties affecting the rail sector as the UK rail industry responded to the changes imposed by Network Rail as it returned maintenance work in house. Other markets served by UK Technical Division such as oil and gas, process engineering, and construction showed good growth and more than offset the shortfall in rail placements.

Operating profit in the IT/Accredited Training division rose 23% to £1.6m on sales down 3% to £30.5m. The falling sales were driven by a policy decision to reduce the number of contractors on very low margins (sub 5%) which has seen a reduction in total sales but an improvement in both Net Fee Income (gross profit) (up £0.4m to £3.7m,) and overall gross profit margins which rose from 10.5% to 12.2%.

Other strategic initiatives in the year included greater focus on permanent placements, harmonisation of recruitment technology across the globe and cross selling of staffing services to all group clients. The business enters the new year in robust financial health and is trading above comparable levels twelve months ago.

¹ Goodwill amortisation charge for the year is £1.485m (2004 - £1.485m)

² Exceptionals in the year are £320,000 which relate to the restructuring of the Middle East Operations. The 2004 charge was £207,000 which related to the cost of bank refinancing arrangements.

Directors' report

For the year ended 31 October 2005

The directors present their annual report on the affairs of the group, together with the financial statements and independent auditors' report, for the year ended 31 October 2005.

Principal activity

The group is engaged in the hiring out of technical, engineering, IT and rail consultants.

Results and dividends

The audited financial statements for the year ended 31 October 2005 are set out on pages 8 to 29.

Results, dividends paid and proposed and recommended transfers to reserves are as follows:

	2005 £	2004 £
Turnover	<u>151,978,835</u>	<u>140,926,501</u>
Operating profit before exceptional items and goodwill	<u>6,000,882</u>	<u>4,420,316</u>
Profit after taxation	1,322,102	565,373
Minority interests	(301,014)	(94,919)
Dividends paid and proposed	-	(359,066)
Profit for the year transferred to reserves	<u>1,012,088</u>	<u>111,388</u>

Directors and their interests

The directors who served during the year, together with their interests as required to be shown by Schedule 7 of the Companies Act 1985, are:

	£1 redeemable preference shares		1p preferred ordinary shares	
	2005	2004	2005	2004
G.W. Lloyd	750,370	750,370	1,300,345	1,300,345
B.A. Sullivan (resigned 30 March 2005)	750,370	750,370	1,300,345	1,300,345
S.J. Bowyer	504,700	164,700	-	-
D.A. Gregson (resigned 6 January 2006)	-	-	399,900	399,900
I. Kirkham (non-executive) (resigned 1 June 2005)	-	-	-	270,000
C.J. Busby (non-executive)	-	-	-	-
N. Tregarthen	-	-	706,316	526,316
P.N. Lanigan (appointed 6 January 2006)	-	-	-	-
B.J. Thew (appointed 10 October 2005)	-	-	-	-

Directors' report (continued)

Directors and their interests (continued)

	1p Ratchet shares		1p Deferred shares	
	2005	2004	2005	2004
G.W. Lloyd	-	-	174,500,000	174,500,000
B.A. Sullivan	-	-	174,500,000	174,500,000
S.J. Bowyer	-	-	6,500,000	6,500,000
D.A. Gregson	1,244	1,244	-	-
I. Kirkham (non-executive)	-	647	-	-
C.J. Busby (non-executive)	-	-	-	-
N. Tregarthen	1,426	995	-	-
P.N. Lanigan	-	-	-	-
B.J. Thew	-	-	-	-

Auditors

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

Station House
Stamford New Road
Altrincham
Cheshire
WA14 1EP

By order of the Board,

P.A. Lanigan
Director

2006

Statement of directors' responsibilities

United Kingdom 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 group at the end of the financial year and of the profit or loss of the group for that year. 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

To the members of NES Group Limited:

We have audited the financial statements of NES Group Limited for the year ended 31 October 2005 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the consolidated cash flow statement, the statement of accounting policies and the related notes numbered 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

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.

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 Directors' report. 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 group 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, or material inconsistencies with the financial statements.

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 circumstances of the company and of the group, 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.

Independent auditors' report (continued)

Opinion

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

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Manchester

2006

Notes: An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

Consolidated profit and loss account

For the year ended 31 October 2005

	Notes	2005 £	2004 £
Turnover	1	151,978,835	140,926,501
Cost of sales		<u>(134,193,007)</u>	<u>(125,994,431)</u>
Gross profit		17,785,828	14,932,070
Other operating expenses	2	<u>(13,589,750)</u>	<u>(12,203,560)</u>
Operating profit before operating exceptional items and goodwill amortisation		6,000,882	4,420,316
Operating exceptional items	3	<u>(319,804)</u>	<u>(206,806)</u>
Amortisation of goodwill		<u>(1,485,000)</u>	<u>(1,485,000)</u>
Operating profit		4,196,078	2,728,510
Profit on sale of fixed assets		-	<u>578,237</u>
Profit on ordinary activities before interest		4,196,078	3,306,747
Finance charges	4	<u>(1,723,882)</u>	<u>(1,845,477)</u>
Profit on ordinary activities before taxation	5	2,472,196	1,461,270
Tax on profit on ordinary activities	7	<u>(1,150,094)</u>	<u>(895,897)</u>
Profit on ordinary activities after taxation		1,322,102	565,373
Minority interests	20	<u>(310,014)</u>	<u>(94,919)</u>
Profit for the financial year		1,012,088	470,454
Dividends paid and proposed	8	-	<u>(359,066)</u>
Retained profit for the year	18	<u>1,012,088</u>	<u>111,388</u>

All activity has arisen from continuing operations.

The accompanying notes are an integral part of this consolidated profit and loss account.

Consolidated statement of total recognised gains and losses

For the year ended 31 October 2005

	2005 £	2004 £
Profit for the financial year	1,012,088	111,388
Currency translation difference on foreign currency net investments	<u>(59,850)</u>	<u>(277,746)</u>
Total recognised gains and losses relating to the year	<u>952,238</u>	<u>(166,358)</u>

The accompanying notes are an integral part of this consolidated statement of total recognised gains and losses.

Consolidated balance sheet

31 October 2005

	Notes	2005 £	2004 £
Fixed assets			
Goodwill	10	20,084,827	21,569,827
Tangible assets	11	588,303	695,958
		<u>20,673,130</u>	<u>22,265,785</u>
Current assets			
Debtors	13	28,446,311	26,234,353
Cash at bank and in hand		4,968	3,738
		<u>28,451,279</u>	<u>26,238,091</u>
Creditors: Amounts falling due within one year	14	<u>(25,744,830)</u>	<u>(24,736,600)</u>
Net current assets		<u>2,706,449</u>	<u>1,501,491</u>
Total assets less current liabilities		<u>23,379,579</u>	<u>23,767,276</u>
Creditors: Amounts falling due after more than one year	15	<u>(15,517,762)</u>	<u>(17,087,711)</u>
Net assets		<u>7,861,817</u>	<u>6,679,565</u>
Capital and reserves			
Called-up share capital	17	6,131,513	6,131,513
Share premium account	18	596,835	596,835
Other reserves	18	4,705,188	4,785,188
Profit and loss account	18	<u>(4,738,789)</u>	<u>(5,691,027)</u>
Shareholders' funds	19	6,694,747	5,822,509
Minority interests	20	<u>1,167,070</u>	<u>857,056</u>
Total capital employed		<u>7,861,817</u>	<u>6,679,565</u>
Shareholders' funds may be analysed as:			
Equity interests		5,436,667	4,254,415
Non-equity interests		<u>2,425,150</u>	<u>2,425,150</u>
		<u>7,861,817</u>	<u>6,679,565</u>

The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

31 October 2005

	Notes	2005 £	2004 £
Fixed assets			
Investments	12	30,954,596	30,954,596
Tangible assets	11	5,130	6,746
		<u>30,959,726</u>	<u>30,961,342</u>
Current assets			
Debtors	13	3,742,106	1,559,478
		<u>3,742,106</u>	<u>1,559,478</u>
Creditors: Amounts falling due within one year	14	<u>(6,749,218)</u>	<u>(5,877,074)</u>
Net current liabilities		<u>(3,007,112)</u>	<u>(4,317,596)</u>
Total assets less current liabilities		27,952,614	26,643,746
Creditors: Amounts falling due after more than one year	15	<u>(15,517,762)</u>	<u>(17,087,711)</u>
Net assets		<u>12,434,852</u>	<u>9,556,035</u>
Capital and reserves			
Called-up share capital	17	6,131,513	6,131,513
Share premium account	18	596,835	596,835
Other reserves	18	4,705,188	4,785,188
Profit and loss account	18	<u>1,001,316</u>	<u>(1,957,501)</u>
Shareholders' funds		<u>12,434,852</u>	<u>9,556,035</u>
Shareholders' funds may be analysed as:			
Equity interests		10,009,702	7,130,885
Non-equity interests		<u>2,425,150</u>	<u>2,425,150</u>
		<u>12,434,852</u>	<u>9,556,035</u>

The financial statements were approved by the board of directors on

2006 and signed on its behalf by:

P.N. Lanigan
Director

2006

The accompanying notes are an integral part of this balance sheet.

Consolidated cash flow statement

For the year ended 31 October 2005

	Notes	2005 £	2004 £
Net cash inflow from operating activities	21	4,621,455	4,853,919
Returns on investments and servicing of finance	22	(1,668,831)	(5,918,803)
Taxation	22	(1,101,869)	(1,036,527)
Capital expenditure and financial investment	22	<u>(206,246)</u>	<u>681,346</u>
Cash inflow (outflow) before management of liquid resources and financing		1,644,509	(1,420,065)
Financing	22	<u>(1,625,000)</u>	<u>3,000,553</u>
Increase in cash in the year	23	<u>19,509</u>	<u>1,580,488</u>

The accompanying notes are an integral part of this consolidated cash flow statement.

Statement of accounting policies

For the year ended 31 October 2005

Basis of preparation

The statutory group profit and loss account and balance sheet consolidate the financial statements of NES Group Limited and its subsidiary undertakings made up to 31 October 2005.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Basis of accounting

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

Basis of consolidation

The group financial statements consolidate the financial statements of NES Group Limited and its subsidiary undertakings drawn up to 31 October each year. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Intangible assets - Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is twenty years. Provision is made for any impairment.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than investment properties and freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Freehold property	2.5% straight line
Leasehold improvements	20% straight line
Motor vehicles	25% reducing balance
Computer equipment	33 $\frac{1}{3}$ % straight line
Fixtures, fittings and equipment	12 $\frac{1}{2}$ % straight line

Residual value is calculated on prices prevailing at the date of acquisition or revaluation.

Investments

Fixed asset investments are shown at cost.

Statement of accounting policies (continued)

For the year ended 31 October 2005

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and law that have been enacted or substantially enacted by the balance sheet date.

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 group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing difference can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the 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.

Turnover

Turnover represents fees receivable for the hire of personnel, net of trade discounts, VAT and other sales related taxes. Revenue is recognised on a basis of hours worked for contractors hired out and on the start date for permanent placements.

Pension costs

The group makes contributions to the personal pension schemes of certain employees. The amount charged to the profit and loss account in respect of pension costs is the contributions payable in the year.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. The results of overseas operations are translated at the closing rate of exchange during the period and their balance sheets at the rates ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and on foreign currency borrowings, to the extent that they hedge the group's investment in such operations, are reported in the statement of total recognised gains and losses. All other exchange differences are included in the profit and loss account.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Statement of accounting policies (continued)

For the year ended 31 October 2005

Finance costs

Finance costs of debt, non-equity shares and non-equity minority interests are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Where the finance costs for non-equity shares and non-equity minority interests are not equal to the dividends on these instruments, the difference is also accounted for in the profit and loss account as an appropriation of profits.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period. Convertible debt is reported as a liability unless conversion actually occurs. No gain or loss is recognised on conversion.

Employee Benefit Trust

Shares in the company held by an Employee Benefit Trust, for which NES Group Limited is considered to be the sponsoring company, as defined by UITF 13 "Accounting for ESOP trusts", are shown as a deduction from shareholders' funds as required by UITF 17 "Employee Share Schemes".

Notes to financial statements

31 October 2005

1 Segment information

Turnover and profit before taxation is attributable to one activity, the hire of personnel. The analysis of turnover by geographical market has been omitted as the directors believe that publication of such information would be prejudicial to the group's interests.

2 Other operating expenses

	2005 £	2004 £
Administrative expenses	11,784,946	10,511,754
Amortisation of goodwill	1,485,000	1,485,000
Exceptional operating costs (note 3)	319,804	206,806
	<u>13,589,750</u>	<u>12,203,560</u>

3 Exceptional operating items

	2005 £	2004 £
Cost of bank re-financing arrangements	-	206,806
Restructuring of Middle East operations	<u>319,804</u>	<u>-</u>

The above item has been disclosed in operating profit as being exceptional because the directors believe it is non-recurring and material in nature. Had they not been separately disclosed, they would have been included in administrative costs.

4 Finance charges

	2005 £	2004 £
<i>Interest payable and similar charges</i>		
Bank loans and overdrafts	<u>(1,723,882)</u>	<u>(1,845,477)</u>

Notes to financial statements (continued)

31 October 2005

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging/(crediting)

	2005 £	2004 £
Depreciation and amounts written off tangible fixed assets		
- owned	305,782	304,409
Amortisation of goodwill	1,485,000	1,485,000
Loss (profit) on disposal of fixed assets	8,119	(578,237)
Operating lease rentals		
- Plant and machinery	210,434	239,470
- other	558,589	410,561
Auditors' remuneration		
- audit services	56,000	56,000
- other services	43,129	128,767
	<u>43,129</u>	<u>128,767</u>

6 Staff costs

The average monthly number of employees (including executive directors) was:

	2005 Number	2004 Number
Sales and administration	<u>218</u>	<u>212</u>

	2005 £	2004 £
Their aggregate remuneration (including executive directors) comprised:		
Wages and salaries	6,988,211	6,260,899
Social security costs	634,795	614,705
Other pension costs	28,000	23,000
	<u>7,651,006</u>	<u>6,898,604</u>

The total amounts for directors' remuneration were as follows:

	2005 £	2004 £
Emoluments	698,101	667,734
Other pension costs	25,000	20,000
	<u>723,101</u>	<u>687,734</u>

Highest paid director

The above amounts for remuneration include the following in respect of the highest paid director:

	2005 £	2004 £
Emoluments	145,454	161,502
Other pension costs	5,000	5,000
	<u>150,454</u>	<u>166,502</u>

Notes to financial statements (continued)

31 October 2005

7 Tax on profit on ordinary activities

The tax charge comprises:

	2005 £	2004 £
Corporation tax		
- UK	1,104,605	841,808
- Overseas	96,237	53,539
Adjustment in respect of prior years	(40,396)	(496)
Total current tax	<u>1,160,446</u>	<u>894,851</u>
Deferred tax credit	(12,262)	(452)
Adjustment in respect of prior years	1,910	1,498
Total deferred tax	<u>10,352</u>	<u>1,046</u>
Tax charge for the year	<u><u>1,150,094</u></u>	<u><u>895,897</u></u>

The differences between the total current tax shown and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2005 £	2004 £
Profit on ordinary activities before tax	<u>2,472,196</u>	<u>1,461,270</u>
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2004 – 30%)	741,659	438,381
Effects of:		
Expenses not deductible for tax purposes	48,131	90,661
Capital allowances in excess of depreciation	(3,515)	(1,290)
Movement in short term timing differences	(6,837)	2,246
Other deferred tax movements	-	90
Goodwill amortisation	445,500	455,500
Chargeable gains	-	(19,884)
Overseas income	(24,086)	(60,357)
Adjustments in respect of previous years	(40,396)	(496)
Current tax charge for the year	<u><u>1,160,456</u></u>	<u><u>894,851</u></u>

Notes to financial statements (continued)

31 October 2005

8 Dividends paid and proposed

	2005	2004
Non-equity shares:	£	£
6% preference dividend proposed	-	359,066

9 Profit attributable to NES Group Limited

The loss after tax for the financial year dealt within the financial statements of the parent company, NES Group Limited, was £591,183 (2004 – profit of £596,758). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

10 Intangible fixed assets - Goodwill

	£
Cost	
At beginning and end of the year	<u>29,654,371</u>
Amortisation	
At beginning of the year	8,084,544
Charge for the year	<u>1,485,000</u>
At end of the year	<u>9,569,544</u>
Net book value	
At end of the year	<u>20,084,827</u>
At beginning of the year	<u>21,569,827</u>

Notes to financial statements (continued)

31 October 2005

11 Tangible fixed assets

Group	Leasehold improvements £	Computer equipment £	Fixtures, fittings and equipment £	Motor vehicles £	Total £
Cost					
At beginning of the year	234,846	1,792,908	645,540	168,661	2,841,955
Additions	52,921	176,727	23,615	-	253,263
Disposals	-	(37,985)	(31,697)	(114,118)	(183,800)
At end of year	<u>287,767</u>	<u>1,931,650</u>	<u>637,458</u>	<u>54,543</u>	<u>2,911,418</u>
Depreciation					
At beginning of the year	189,840	1,430,885	456,407	68,865	2,145,997
Charge	59,803	167,005	56,237	22,737	305,782
Disposals	-	(35,603)	(24,723)	(68,338)	(128,664)
At end of the year	<u>249,643</u>	<u>1,562,287</u>	<u>487,921</u>	<u>23,264</u>	<u>2,323,115</u>
Net book value					
At end of the year	<u>38,124</u>	<u>369,363</u>	<u>149,537</u>	<u>31,279</u>	<u>588,303</u>
At beginning of the year	<u>45,006</u>	<u>362,023</u>	<u>189,133</u>	<u>99,796</u>	<u>695,958</u>
Company					
Cost					
At beginning of the year			6,442	455	6,897
Additions			683	-	683
At end of year			<u>7,125</u>	<u>455</u>	<u>7,580</u>
Depreciation					
At beginning of the year			146	5	151
Charge			2,242	57	2,299
At end of the year			<u>2,388</u>	<u>62</u>	<u>2,450</u>
Net book value					
At end of the year			<u>4,737</u>	<u>393</u>	<u>5,130</u>
At beginning of the year			<u>6,296</u>	<u>450</u>	<u>6,746</u>

There were no assets held under finance leases by the group nor the company in either year.

Notes to financial statements (continued)

31 October 2005

12 Fixed asset investments

a) Principal investments

The company has investments in the following subsidiary undertakings, which principally affected the profits or net assets of the group. To avoid a statement of excessive length, details of investments which are not significant have been omitted.

All subsidiary undertakings are incorporated in England and Wales.

	Principal activity	Holding	%
+NES International Limited	Provision of technical personnel staffing solutions	Ordinary	100%
NES Computer Services Limited	Provision of IT personnel staffing solutions, accredited training and project management and assurance consultancy	Ordinary	77.5%
NES (Overseas) Limited	Provision of technical engineering consultancy services overseas	Ordinary	81%
Nestrack Limited	Provision of railway technical personnel staffing solutions	Ordinary	100%

+ Held directly by NES Group Limited.

b) Movements on investments

	Subsidiary undertakings £
Cost and net book value	
At beginning and end of the year	<u>30,954,596</u>

13 Debtors

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Amounts falling due within one year:				
Trade debtors	27,013,978	-	25,162,071	-
Amounts owed by connected undertakings	361	-	537	-
Amounts owed by group undertakings	-	3,698,462	-	1,415,579
Unpaid share capital	-	-	80,000	80,000
Deferred tax asset (see note 16)	43,572	2,779	33,220	-
Other debtors	229,783	22,288	220,813	62,576
Prepayments and accrued income	1,158,617	18,577	737,712	1,323
	<u>28,446,311</u>	<u>3,742,106</u>	<u>26,234,353</u>	<u>1,559,478</u>

Notes to financial statements (continued)

31 October 2005

14 Creditors: Amounts falling due within one year

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Bank overdraft	14,116,876	4,660,316	14,135,155	1,315,127
Bank loans (see note 15)	1,625,000	1,625,000	1,625,000	1,625,000
Trade creditors	764,616	27,896	263,976	7,033
Corporation tax	608,638	549	550,061	-
Other taxation and social security	1,215,543	27,520	1,023,038	21,838
Other creditors	4,050,684	10,000	5,171,027	-
Accruals and deferred income	3,363,473	187,217	1,968,343	258,484
Amounts owed to group undertakings	-	210,720	-	2,649,592
	<u>25,744,830</u>	<u>6,749,218</u>	<u>24,736,600</u>	<u>5,877,074</u>

The bank loans and overdrafts are part of a group banking facility and are secured by joint guarantees and indemnities and fixed and floating charges over the company's and subsidiaries' assets. The company has entered into a joint guarantee and indemnity in respect of bank facilities granted to subsidiaries amounting to £9,757,830 at 31 October 2005 (2004 - £14,051,113).

15 Creditors: Amounts falling due after more than one year

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Bank loans	3,250,000	3,250,000	4,875,000	4,875,000
Subordinated 'A' loan notes and 'B' loan notes	<u>12,267,762</u>	<u>12,267,762</u>	<u>12,212,711</u>	<u>12,212,711</u>
	<u>15,517,762</u>	<u>15,517,762</u>	<u>17,087,711</u>	<u>17,087,711</u>

On 30 July 2004 the company issued two loan note instruments, both new 'A' and 'B' loan notes are unsecured, subordinated and do not accrue interest. The total face value of these notes is £12,438,000. The notes are redeemable in full on 30 June 2008.

The loan notes are stated net of accrued interest payments and allocated finance costs for the year, as required under the provisions of FRS4. The subordinated 'A' loan notes and 'B' loan notes are stated net of £170,949 (2004 - £226,000) of costs.

Notes to financial statements (continued)

31 October 2005

15 Creditors: Amounts falling due after more than one year (continued)

Borrowings are repayable as follows:

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Bank loans				
Between two and five years	1,625,000	1,625,000	3,250,000	3,250,000
Between one and two years	1,625,000	1,625,000	1,625,000	1,625,000
On demand or within one year	1,625,000	1,625,000	1,625,000	1,625,000
	<u>4,875,000</u>	<u>4,875,000</u>	<u>6,500,000</u>	<u>6,500,000</u>
Subordinated 'A' and 'B' loan notes				
Between two and five years	12,267,762	12,267,762	12,212,711	12,212,711
	<u>12,267,762</u>	<u>12,267,762</u>	<u>12,212,711</u>	<u>12,212,711</u>
Total borrowings				
Between one and two years	1,625,000	1,625,000	1,625,000	1,625,000
Between two and five years	13,892,762	13,892,762	15,462,711	15,462,711
On demand or within one year	1,625,000	1,625,000	1,625,000	1,625,000
	<u>17,142,762</u>	<u>17,142,762</u>	<u>18,712,711</u>	<u>18,712,711</u>

16 Deferred taxation

	Group £	Company £
Beginning of year	33,220	-
Credit for the year	10,352	2,779
End of year	<u>43,572</u>	<u>2,779</u>

The deferred tax asset recognised is in respect of accelerated capital allowances and other short-term timing differences as follows:

	Group 2005 £	Company 2005 £	Group 2004 £	Company 2004 £
Accelerated capital allowances	37,571	(221)	34,056	-
Other timing differences	6,000	3,000	(836)	-
	<u>43,572</u>	<u>2,779</u>	<u>33,220</u>	<u>-</u>

Notes to financial statements (continued)

31 October 2005

17 Called-up share capital

	2005	2004
	£	£
<i>Authorised</i>		
1,126,136 ordinary shares of 1p each	11,126	11,126
205,990,000 preferred ordinary shares of 1p each	2,059,900	2,059,900
556,700 'A' redeemable preference shares of £1 each	556,700	556,700
1,868,450 'B' redeemable preference shares of £1 each	1,868,450	1,868,450
10,000 Ratchet shares of 1p each	100	100
361,000,000 Deferred shares of 1p each	3,610,000	3,610,000
	<u>8,106,276</u>	<u>8,106,276</u>

	2005	2004
	£	£
<i>Allotted, called-up and fully-paid</i>		
600,000 ordinary shares of 1p each	6,000	6,000
9,026,316 preferred ordinary shares of 1p each	90,263	90,263
556,700 'A' redeemable preference shares of £1 each	556,700	556,700
1,868,450 'B' redeemable preference shares of £1 each	1,868,450	1,868,450
10,000 Ratchet shares of 1p each	100	100
361,000,000 Deferred shares of 1p each	3,610,000	3,610,000
	<u>6,131,513</u>	<u>6,131,513</u>

Ratchet of shares

This class of share carries no dividend rights but carries a capital right should the change in ownership of the business result in the majority shareholder recovering in excess of a threshold value.

Deferred shares

This class of shares shall carry no right to share in any distribution until at least £100m has been distributed on each Ordinary Share, Ratchet Share and Preferred Ordinary Share. Once such amount has been distributed, the Deferred Shares will rank pari passu with the other classes of shares.

Preference shares

Non-equity shareholders' funds relate entirely to the 'A' and 'B' redeemable preference shares. The shares carry no entitlement to dividend and the company shall redeem for cash at a price of £1 per share the 'A' Preference and 'B' Preference Shares on 1 November 2008. Holders of the redeemable preference shares have one vote for every share held but only on a resolution for the winding-up of the company or on a resolution affecting the rights attached to the shares or if the preference dividend has remained unpaid. Holders of the redeemable preference shares have one vote for every share but only on a resolution for the winding-up of the company or on a resolution affecting the rights attached to the shares.

Notes to financial statements (continued)

31 October 2005

Holders of Ratchet Shares and Deferred Shares have one vote for every share held but are not entitled to vote at any general meeting of the company.

Notes to financial statements (continued)

31 October 2005

17 Called-up share capital (continued)

On the return of assets whether in a winding-up or reduction of capital or otherwise, the assets and retained profits of the company available for distribution among the members shall be applied as follows; the 'A' and 'B' Preference Shares shall be redeemed at par; the Preferred Ordinary Shareholders will be paid the amounts credited as paid up on the Preferred Ordinary Shares; the Ordinary Shareholders and Ratchet Shareholders will be paid the amounts credited as paid up on those shares; the remainder will be distributed to Ordinary Shareholders, Preferred Ordinary Shareholders and Ratchet Shareholders in proportions depending on the value and nature of the consideration.

18 Reserves

Group	Share premium account £	Other reserves £	Profit and loss account £	Total £
At beginning of the year	596,835	4,785,188	(5,691,027)	(309,004)
Currency difference on foreign currency net investments	-	-	(59,850)	(59,850)
Shares held by ESOP trust	-	(80,000)	-	(80,000)
Retained profit for the year	-	-	1,012,088	1,012,088
At end of the year	<u>596,835</u>	<u>4,705,188</u>	<u>(4,738,789)</u>	<u>563,234</u>

Company	Share premium account £	Other reserves £	Profit and loss account £	Total £
At beginning of the year	596,835	4,785,188	(1,957,501)	3,424,522
Loss for the year	-	-	(591,183)	(591,183)
Shares held by ESOP trust	-	(80,000)	-	(80,000)
Dividends received	-	-	3,550,000	3,550,000
At end of the year	<u>596,835</u>	<u>4,705,188</u>	<u>1,001,316</u>	<u>6,303,339</u>

The shares held by the Employee Share Ownership Plan (ESOP) were shown with debtors in the prior year.

Of the Other Reserves balance £2,427,023 (2004 - £2,427,023) is distributable.

Notes to financial statements (continued)

31 October 2005

19 Reconciliation of movements in group shareholders' funds

	2005 £	2004 £
Opening shareholders' funds	5,822,509	5,959,032
Profit for the financial year	1,012,088	470,454
Dividends paid and proposed	-	(359,066)
Other recognised gains and losses relating to the year	(59,850)	(277,746)
Transfer to minority interest	-	(507,551)
Issue of new shares	-	5,363
Write off of accrued preference dividends	-	2,507,023
Redemption of preference shares	-	(1,975,000)
Shares held by ESOP trust	(80,000)	-
Closing shareholders' funds	<u>6,694,747</u>	<u>5,822,509</u>

20 Minority interests

	£
At beginning of the year	857,056
Profit on ordinary activities after taxation	310,014
At end of the year	<u>1,167,070</u>

21 Reconciliation of operating profit to operating cash flows

	2005 £	2004 £
Operating profit	4,196,078	2,728,510
Depreciation charges	305,782	304,409
Amortisation of goodwill	1,485,000	1,485,000
Loss on sale of fixed assets	8,119	-
Increase in debtors	(2,320,895)	(1,757,455)
Increase in creditors	947,371	2,093,455
Net cash inflow from operating activities	<u>4,621,455</u>	<u>4,853,919</u>

Notes to financial statements (continued)

31 October 2005

22 Analysis of cash flows

	2005 £	2004 £
<i>Returns on investments and servicing of finance</i>		
Minority interest dividend	-	(77,333)
Interest paid	(1,668,831)	(5,841,470)
Net cash outflow	(1,668,831)	(5,918,803)
<i>Taxation</i>		
Corporation tax paid	(1,101,869)	(1,036,527)
Net cash outflow	(1,101,869)	(1,036,527)
<i>Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	(253,263)	(191,978)
Sale of tangible fixed assets	47,017	873,324
Net cash (outflow)/inflow	(206,246)	681,346
	2005 £	2004 £
<i>Financing</i>		
Repayment of loans	(1,625,000)	(500,000)
New loan	-	6,500,000
Redemption of preference shares	-	(1,975,000)
Redemption of 6% 'A' and 'B' loan notes	-	(13,375,850)
New 'A' and 'B' loan notes	-	12,438,000
Financing costs in respect of re-financing	-	(91,960)
Issue of shares	-	5,363
Net cash (outflow)/inflow	(1,625,000)	3,000,553

23 Analysis and reconciliation of net debt

	At beginning of year £	Cash flow £	Other non-cash movement £	At end of year £
Cash in hand, at bank	(3,738)	(1,230)	-	(4,968)
Overdrafts	14,135,155	(18,279)	-	14,116,876
	<u>14,131,417</u>	<u>(19,509)</u>	<u>-</u>	<u>14,111,908</u>
Debt due after 1 year	17,087,711	(1,625,000)	55,051	15,517,762
Debt due within 1 year	1,625,000	-	-	1,625,000
	<u>18,712,711</u>	<u>(1,625,000)</u>	<u>55,051</u>	<u>17,142,762</u>
Net debt	<u>32,844,128</u>	<u>(1,644,509)</u>	<u>55,051</u>	<u>31,254,670</u>

Notes to financial statements (continued)

31 October 2005

23 Analysis and reconciliation of net debt (continued)

	2005 £	2004 £
Net debt at beginning of year	(32,844,128)	(29,413,269)
Increase in cash during the period	19,509	1,580,488
Cash outflow/(inflow)from decrease in debt financing	1,625,000	(4,970,190)
Change in net debt resulting from cash flows	1,644,509	(3,389,702)
Amortisation of finance charges	(55,051)	(41,157)
Movement in net debt in year	1,589,458	(3,430,859)
Net debt at end of year	<u>(31,254,670)</u>	<u>(32,844,128)</u>

24 Financial commitments

Annual commitments under non-cancellable operating leases are as follows:

	2005		2004	
	Land and buildings £	Other £	Land and buildings £	Other £
Group				
Expiry date				
- within one year	122,354	55,264	148,072	121,709
- between one and two years	14,753	148,802	-	-
- between two and five years	364,650	13,430	373,589	169,011
- after five years	81,977	-	78,000	-
	<u>583,734</u>	<u>217,496</u>	<u>599,661</u>	<u>290,720</u>

25 Capital commitments

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessee to pay all insurance, maintenance and repair costs.

There were no capital commitments at 31 October 2005 and at 31 October 2004 for either the company or the group.

Notes to financial statements (continued)

31 October 2005

26 Related parties

The company has taken advantage of the exemption available in FRS8 not to disclose transactions with fellow group companies where ownership is in excess of 90%. The following transactions require disclosure in respect of management charges made.

	2005	2004
	£	£
NES Computer Services Limited	113,807	-
NES Overseas Limited	57,468	34,327
NES Overseas Hong Kong Limited	28,737	38,451
NES Overseas USA LLC	114,935	75,519
NES Overseas SDN BHD	28,734	16,474
NES Overseas LLC	28,734	38,493
NES Overseas Qatar WLL	28,735	9,565
	<u>401,150</u>	<u>212,829</u>

The amount outstanding at the end of each year in respect of the above transaction is included in notes 13 and 14.