

**NES Group Limited**  
and subsidiary undertakings

Annual report and financial statements  
for the year ended 31 October 2006  
together with directors' and independent auditors'  
reports

Registered number: 3685787

## Officers and Professional Advisers

### **DIRECTORS**

N. Tregarthen

M. Tully (appointed 27 April 2006)

G.W. Lloyd (resigned 4 September 2006, appointed 26<sup>th</sup> April 2007)

S.J. Ross (appointed 26 April 2007)

S.J. Bowyer (resigned 4 September 2006)

C.J. Busby Non-executive (resigned 4 September 2006)

S.W. Buckley (appointed 2 April 2007)

P.N. Lanigan (resigned 31 January 2007)

B.J. Thew (resigned 4 September 2006)

### **SECRETARY**

P.N. Lanigan (resigned 31 January 2007)

N. Tregarthen (appointed 31 January 2007, resigned 2 April 2007)

S.W. Buckley (appointed 2 April 2007)

### **REGISTERED OFFICE**

Station House

Stamford New Road

Altrincham

Cheshire

WA14 1EP

### **AUDITORS**

Deloitte & Touche LLP

Manchester

## Chief Executive's report

The year ended 31 October 2006 saw the group produce a record operating profit performance of £7.6m (2005 - £6.0m) before goodwill amortisation and exceptionals. Turnover increased to £181.8m, a rise of 19.6% on prior year whilst the overall group gross profit grew by 22.3% to £21.7m and gross profit margin improved to 12.0% (2005 - 11.7%). The conversion of group gross profit to operating profit before amortisation and exceptionals rose from 33.7% to 35.0%.

The group operates through three trading divisions, UK Technical, Overseas Technical and IT/Accredited Training. All three trading divisions operated profitably over the year with UK Technical and Overseas Technical achieving significant growth in gross margin. This supported the record operating profit growth detailed above.

The continuing investment in Overseas Technical was rewarded with revenues increasing from 21% of group sales to 30% during the year, and with operating profits increasing by 92% over the prior year.

UK Technical experienced a 36% 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 fell by 8.1% to £1.5m on sales down 12% to £27.0m. The falling sales were driven by a policy decision to reduce the number of contractors on low margins (sub 5%), which has seen a reduction in both total sales and gross profit (down £0.3m to £3.4m). However, gross profit margins rose from 12.2% to 12.7%.

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 entered the new year in robust financial health and is trading above comparable levels twelve months ago.

Finally, the group welcomed new investors in September 2006, after Graphite Capital bought the controlling interest in the business from Bridgepoint Capital. The exit of Bridgepoint has been long planned and the deal produced solid returns for them, as well as allowing Graphite to buy into a business that is growing strongly and fits well with their investment rationale. We welcome Graphite as partners and look forward together to driving the group forward and continuing the exciting growth we have demonstrated over the last two years.

## Directors' report

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 2006.

### Principal activity

The group is engaged in the hiring out of technical, engineering, IT and rail consultants globally. The business has continued to grow sales by developing new geographical areas in addition to a strong performance in its traditional areas.

On 4 September 2006 the entire share capital of NES Group Limited was acquired by NES Finance Limited, a wholly owned subsidiary of NES Holdings Limited.

### Business review

The company is required to set out in this report a fair review of the business of the group during the financial year ended 31 October 2006 and of the position of the group at the end of that financial year and a description of the principal risks and uncertainties facing the group (known as a "Business Review"). The information that fulfils the requirements of the Business Review can be found in the Chief Executive's report with the exception of the risks and uncertainties, which are detailed below.

### Results and financial performance

The audited financial statements for the year ended 31 October 2006 are set out on pages 11 to 35.

Turnover of £181.8m represented a growth of 19.6% upon the prior year. Additionally, operating profit before operating exceptional items and goodwill amortisation was £7.6m, an increase of £1.6m (26.7%) upon the prior year, whilst profit after taxation is £263,000 up on the prior year.

Results are as follows:

	2006 £'000s	2005 £'000s
Turnover	<u>181,788</u>	<u>151,979</u>
Operating profit before exceptional items and goodwill	<u>7,606</u>	<u>6,001</u>
Profit after taxation	1,585	1,322
Minority interests	<u>(129)</u>	<u>(310)</u>
Profit for the year transferred to reserves	<u>1,456</u>	<u>1,012</u>

## Directors' report (continued)

### **Principal risks and uncertainties**

#### ***Financial risk***

As part of its ordinary activities, the group is exposed to a number of financial risks, including liquidity risk, credit risk, interest rate risk and exchange rate risk. The group has policies and procedures in place to monitor and manage these risks.

Liquidity risk relates to the group's ability to meet the cash flow requirements of the operations, while avoiding excessive levels of debt and/or breach of its debt covenants. The group's borrowings are principally in the form of short and medium term credit facilities which can be drawn upon on demand when needed. The amount of facility drawn is closely monitored by the board.

Credit risk relates principally to trade receivables from customers. The group assess all customers and sets appropriate credit limits before trading commences and has detailed policies and procedures to monitor each situation. The nature of the customer base is such that there is limited exposure to bad debts.

Interest rate risk and foreign exchange risk are not considered significant at the present time. The level of debt is well covered by operating earnings and given the potential level of interest rates the group might face, it has adequate earnings. The group has a number of overseas operations resulting in foreign currency denominated receivables and payables. The group exposure to foreign currency risk is continually monitored by management with appropriate steps taken to minimise the risk of adverse currency movements.

These risks are kept under constant review.

#### ***Competitor risk***

There are a number of other companies that provide services that are similar to those of the group and therefore could compete in the group's chosen markets, resulting in loss of revenue and pressure on operating margins. In order to assess this risk we undertake a regular review of all of our markets and the activities of competitors are closely monitored. The development of innovative products and services and building close relationships with customers are seen as key to maintain the group's competitive advantage.

## Directors' report (continued)

### 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	
	2006	2005	2006	2005
G.W. Lloyd	-	750,370	-	1,300,345
S.J. Bowyer (resigned 4 September 2006)	-	504,700	-	-
C.J. Busby (non-executive) (resigned 4 Sept 2006)	-	-	-	-
D.A. Gregson (resigned 6 January 2006)	-	-	-	399,900
N. Tregarthen	-	-	-	706,316
S.J. Ross (appointed 26 April 2007)	-	-	-	-
M. Tully (appointed 27 April 2006)	-	-	-	-
P.N. Lanigan (resigned 31 January 2007)	-	-	-	-
	1p Ratchet shares		1p Deferred shares	
	2006	2005	2006	2005
G.W. Lloyd	-	-	-	174,500,000
S.J. Bowyer (resigned 4 September 2006)	-	-	-	6,500,000
D.A. Gregson (resigned 6 January 2006)	-	1,244	-	-
C.J. Busby (non-executive)	-	-	-	-
N. Tregarthen	-	1,426	-	-
S.J. Ross (appointed 26 April 2007)	-	-	-	-
M. Tully (appointed 27 April 2006)	-	-	-	-
P.N. Lanigan (resigned 31 January 2007)	-	-	-	-

The director's interests in the share capital of NES Holdings Limited, the ultimate parent company, at 31 October 2006 are shown below;

	Ordinary "B" shares	Ordinary "C" shares	"B" loan stock
G.W. Lloyd	22,296	-	977,704
S.J. Bowyer (resigned 4 September 2006)	-	-	-
D.A. Gregson (resigned 6 January 2006)	-	-	-
C.J. Busby (non-executive)	-	-	-
N. Tregarthen	8,894	101,106	390,000
S.J. Ross (appointed 26 April 2007)	-	15,000	-
M. Tully (appointed 27 April 2006)	5,701	44,299	250,000
P.N. Lanigan (resigned 31 January 2007)	2,787	25,000	122,213

## Directors' report (continued)

### Employees

The average staff numbers for the year have increased from 218 to 249, an increase of 14.2%. Details of the number of employees and related costs can be found in note 7 to the financial statements.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitude of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The company participates in the group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings and newsletters. Employee representatives are consulted regularly on a wide range of matter affecting their interests.

### Auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

- So far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- Each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of S234ZA of the Companies Act 1985.

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,

S W Buckley  
Director

26 April 2007

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group 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 UK Accounting Standards have been followed;
- 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## Independent auditors' report

### **To the members of NES Group Limited:**

We have audited the group and parent company financial statements (the "financial statements") of NES Group Limited for the year ended 31 October 2006, which comprise the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets, the Group Cash Flow Statement, Statement of Accounting Policies and the related notes 1 to 26. These financial statements have been prepared 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 Annual Report and the financial statements in accordance with applicable law and United Kingdom 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 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, and the Chief Executive's Statement. 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 further information outside the Annual Report.

### **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 judgments

## Independent auditors' report

made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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 group's and the parent company's affairs as at 31 October 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

### **Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
Manchester

## Consolidated profit and loss account

For the year ended 31 October 2006

	Notes	2006 £'000	2005 £'000
<b>Turnover</b>	2	181,788	151,979
Cost of sales		<u>(160,042)</u>	<u>(134,193)</u>
<b>Gross profit</b>		21,746	17,786
Other operating expenses	3	(17,470)	(13,590)
Operating profit before operating exceptional items and goodwill amortisation		7,606	6,001
Operating exceptional items	4	(1,722)	(320)
Amortisation of goodwill		<u>(1,608)</u>	<u>(1,485)</u>
<b>Operating profit</b>		4,276	4,196
Finance charges	5	<u>(1,958)</u>	<u>(1,724)</u>
<b>Profit on ordinary activities before taxation</b>	6	2,318	2,472
Tax on profit on ordinary activities	8	<u>(733)</u>	<u>(1,150)</u>
<b>Profit on ordinary activities after taxation</b>		1,585	1,322
Minority interests	20	<u>(129)</u>	<u>(310)</u>
<b>Retained profit for the year</b>	18	<u>1,456</u>	<u>1,012</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 2006

	2006 £'000	2005 £'000
Profit for the financial year	1,456	1,012
Currency translation difference on foreign currency net investments	<u>(138)</u>	<u>(60)</u>
<b>Total recognised gains and losses relating to the year</b>	<b><u>1,318</u></b>	<b><u>952</u></b>

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

# Consolidated balance sheet

31 October 2006

	Notes	2006 £'000	Restated* 2005 £'000
<b>Fixed assets</b>			
Goodwill	10	21,041	20,084
Tangible assets	11	797	588
		<u>21,838</u>	<u>20,672</u>
<b>Current assets</b>			
Debtors	13	40,957	28,447
Cash at bank and in hand		4	5
		<u>40,961</u>	<u>28,452</u>
<b>Creditors: Amounts falling due within one year</b>	14	<u>(53,852)</u>	<u>(25,744)</u>
<b>Net current (liabilities) / assets</b>		<u>(12,891)</u>	<u>2,708</u>
<b>Total assets less current liabilities</b>		8,947	23,380
<b>Creditors: Amounts falling due after more than one year</b>	15	<u>(2,705)</u>	<u>(17,943)</u>
<b>Net assets</b>		<u>6,242</u>	<u>5,437</u>
<b>Capital and reserves</b>			
Called-up share capital	17	3,702	3,706
Share premium account	18	597	597
Other reserves	18	2,060	4,705
Profit and loss account	18	(913)	(4,738)
		<u>5,446</u>	<u>4,270</u>
<b>Shareholder's funds</b>	19	5,446	4,270
<b>Minority interests</b>	20	796	1,167
<b>Total capital employed</b>		<u>6,242</u>	<u>5,437</u>

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

\* See note 1

# Company balance sheet

31 October 2006

	Notes	2006 £'000	Restated* 2005 £'000
<b>Fixed assets</b>			
Investments	12	34,020	30,955
Tangible assets	11	174	5
		<u>34,194</u>	<u>30,960</u>
<b>Current assets</b>			
Debtors	13	3,234	192
		3,234	192
<b>Creditors:</b> Amounts falling due within one year	14	<u>(26,604)</u>	<u>(6,750)</u>
<b>Net current liabilities</b>		<u>(23,370)</u>	<u>(6,558)</u>
<b>Total assets less current liabilities</b>		10,824	24,402
<b>Creditors:</b> Amounts falling due after more than one year	15	<u>(2,425)</u>	<u>(17,943)</u>
<b>Net assets</b>		<u>8,399</u>	<u>6,459</u>
<b>Capital and reserves</b>			
Called-up share capital	17	3,702	3,706
Share premium account	18	597	597
Other reserves	18	2,060	4,705
Profit and loss account	18	2,040	(2,549)
<b>Shareholder's funds</b>		<u>8,399</u>	<u>6,459</u>

The financial statements were approved by the board of directors on 26 April 2007 and signed on its behalf by:

N Tregarthen  
Director

S W Buckley  
Director

26 April 2007

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

\* See note 1

## Consolidated cash flow statement

For the year ended 31 October 2006

	Notes	2006 £'000	2005 £'000
<b>Net cash (outflow) / inflow from operating activities</b>	21	(1,949)	4,621
Returns on investments and servicing of finance	22	(2,458)	(1,669)
Taxation	22	(862)	(1,102)
Capital expenditure and financial investment	22	(462)	(206)
<b>Cash (outflow) / inflow before management of liquid resources and financing</b>		(5,731)	1,644
Financing	22	(733)	(1,625)
<b>(Decrease) / Increase in cash in the year</b>	23	(6,464)	19

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

## Statement of accounting policies

For the year ended 31 October 2006

### **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 2006.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year, with the exception of the adoption of FRS 21 "Post balance sheet events" and FRS 25 "Financial Instruments: Disclosure", the impact of which is described in note 1.

### **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 at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

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.

### **Investments**

Fixed asset investments are shown at cost, less provision for any impairment.

## Statement of accounting policies (continued)

For the year ended 31 October 2006

### **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 2006

### **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 reflected as a deduction from shareholder's funds as required by UITF 17 "Employee Share Schemes".

## Notes to financial statements

31 October 2006

### 1 Restatement of Comparatives

During the year the company has adopted FRS 21 "Post balance sheet events" and FRS 25 "Financial instruments: Disclosure". The impact of the adoption of these new standards is as follows:

	<b>2005 as Published</b>	<b>Restatement</b>	<b>2005 as restated</b>
	£'000	£'000	£'000
<b>Consolidated balance sheet</b>			
Creditors amounts falling due after more than one year	15,518	2,425	17,943
Called up share capital	6,131	(2,425)	3,706

The restatement of £2,425,000 reflects the reclassification of the company's preference share capital to creditors following the adoption of FRS 25. There is an impact on the consolidated balance sheet but not the consolidated profit and loss account as a result of the adoption of FRS 25.

	<b>2005 as Published</b>	<b>Restatement</b>	<b>2005 as restated</b>
	£'000	£'000	£'000
<b>Company balance sheet</b>			
Debtors	3,742	(3,550)	192
Creditors amounts falling due after more than one year	15,518	2,425	17,943
Called up share capital	6,131	(2,425)	3,706
Profit and loss account	1,001	(3,550)	(2,549)

The restatement of £2,425,000 reflects the reclassification of the company's preference share capital to creditors following the adoption of FRS 25. There is an impact on the company balance sheet but not the company profit and loss account as a result of the adoption of FRS 25.

The restatement of £3,550,000 reflects the recognition of dividend income being moved from the prior year to the current year to reflect the declaration date following the adoption of FRS 21. There is an impact on the company profit and loss account and the company balance sheet as a result of the adoption of FRS 21.

### 2 Segment information

Turnover and profit before taxation is attributable to one activity, the hiring out 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.

## Notes to financial statements

31 October 2006

### 3 Other operating expenses

	2006 £'000	2005 £'000
Administrative expenses	14,140	11,785
Amortisation of goodwill	1,608	1,485
Exceptional operating costs (note 4)	1,722	320
	<u>17,470</u>	<u>13,590</u>

### 4 Exceptional operating items

	2006 £'000	2005 £'000
Costs relating to the sale of NES Group Limited	1,253	-
Restructuring of the UK and Middle East operations	469	320
	<u>1,722</u>	<u>320</u>

The above items have been disclosed in operating profit as being exceptional because the directors believe they are non-recurring and material in nature. Had they not been separately disclosed, they would have been included in administrative costs. The tax impact of the exceptional items is £517,000 (2005 - £96,000).

### 5 Finance charges

	2006 £'000	2005 £'000
<i>Interest payable and similar charges</i>		
Bank loans and overdrafts	(1,958)	(1,724)
	<u>(1,958)</u>	<u>(1,724)</u>

## Notes to financial statements (continued)

31 October 2006

### 6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging

	2006 £'000	2005 £'000
Depreciation and amounts written off tangible fixed assets		
- owned	252	306
Amortisation of goodwill	1,608	1,485
Loss on disposal of fixed assets	-	8
Operating lease rentals		
- Plant and machinery	182	210
- other	698	559
Auditors' remuneration		
- audit services	85	56
- other services	72	43
	<u>72</u>	<u>43</u>

### 7 Staff costs

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

	2006 Number	2005 Number
Sales and administration	<u>249</u>	<u>218</u>

	2006 £'000	2005 £'000
Their aggregate remuneration (including executive directors) comprised:		
Wages and salaries	7,875	6,988
Social security costs	815	635
Other pension costs	31	28
	<u>8,721</u>	<u>7,651</u>

The total amounts for directors' remuneration were as follows:

	2006 £'000	2005 £'000
Emoluments	1,508	698
Other pension costs	31	25
	<u>1,539</u>	<u>723</u>

Highest paid director

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

	2006 £'000	2005 £'000
Emoluments	351	145
Other pension costs	4	5
	<u>355</u>	<u>150</u>

## Notes to financial statements (continued)

31 October 2006

### 8 Tax on profit on ordinary activities

The tax charge comprises:

	2006 £'000	2005 £'000
Corporation tax		
- UK	704	1,105
- Overseas	37	96
Adjustment in respect of prior years	-	(41)
	<hr/>	<hr/>
Total current tax	741	1,160
Deferred tax credit	(8)	(12)
Adjustment in respect of prior years	-	2
	<hr/>	<hr/>
Total deferred tax	(8)	(10)
	<hr/>	<hr/>
Tax charge for the year	<u>733</u>	<u>1,150</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:

	2006 £'000	2005 £'000
<b>Profit on ordinary activities before tax</b>	<u>2,318</u>	<u>2,472</u>
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 30% (2005 – 30%)	695	742
Effects of:		
Expenses not deductible for tax purposes	88	48
Capital allowances in excess of depreciation	5	(4)
Movement in short term timing differences	(13)	(7)
Other tax rates / credits	(6)	-
Goodwill amortisation	457	446
Overseas income	(453)	(23)
Adjustments in respect of previous years	(32)	(41)
	<hr/>	<hr/>
<b>Current tax charge for the year</b>	<u>741</u>	<u>1,160</u>

## Notes to financial statements (continued)

31 October 2006

### 9 Loss 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 £1,468,000 (2005 – £591,000). 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

	£'000
<b>Cost</b>	
At beginning and end of the year	29,654
Additions for the year	2,565
	<hr/>
At end of the year	32,219
	<hr/>
<b>Amortisation</b>	
At beginning of the year	9,570
Charge for the year	1,608
	<hr/>
At end of the year	11,178
	<hr/>
<b>Net book value</b>	
At end of the year	21,041
	<hr/>
At beginning of the year	20,084
	<hr/>

The goodwill addition in the year relates to the purchase of the 19% minority interest in NES (Overseas) Limited by NES Group Limited for £3,065,000 on 28 February 2006. After accounting for the minority interest net assets of £500,000, goodwill of £2,565,000 was created. There is no difference between the book value and fair value of the assets and liabilities acquired. The goodwill will be amortised over the remaining life of the goodwill existing from the original acquisition of NES Overseas Limited.

## Notes to financial statements (continued)

31 October 2006

### 11 Tangible fixed assets

<b>Group</b>	Leasehold improvements £'000	Computer equipment £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>					
At beginning of the year	288	1,930	638	55	2,911
Additions	44	382	35	-	461
At end of the year	<u>332</u>	<u>2,312</u>	<u>673</u>	<u>55</u>	<u>3,372</u>
<b>Depreciation</b>					
At beginning of the year	250	1,562	488	23	2,323
Charge	17	190	34	11	252
At end of the year	<u>267</u>	<u>1,752</u>	<u>522</u>	<u>34</u>	<u>2,575</u>
<b>Net book value</b>					
At end of the year	<u>65</u>	<u>560</u>	<u>151</u>	<u>21</u>	<u>797</u>
At beginning of the year	<u>38</u>	<u>368</u>	<u>150</u>	<u>32</u>	<u>588</u>
<b>Company</b>					
<b>Cost</b>					
At beginning of the year			7	-	7
Additions			170	2	172
At end of the year			<u>177</u>	<u>2</u>	<u>179</u>
<b>Depreciation</b>					
At beginning of the year			2	-	2
Charge			3	-	3
At end of the year			<u>5</u>	<u>-</u>	<u>5</u>
<b>Net book value</b>					
At end of the year			<u>172</u>	<u>2</u>	<u>174</u>
At beginning of the year			<u>5</u>	<u>-</u>	<u>5</u>

## Notes to financial statements (continued)

31 October 2006

### 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	100%
Nestrack Limited	Provision of railway technical personnel staffing solutions	Ordinary	100%

+ Held directly by NES Group Limited.

\* See note 10

#### b) Movements on investments

	Subsidiary undertakings £
<b>Cost and net book value</b>	
At beginning of the year	30,955
Additions (see note 10)	3,065
At end of the year	<u>34,020</u>

## Notes to financial statements (continued)

31 October 2006

### 13 Debtors

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Amounts falling due within one year:				
Trade debtors	38,162	-	27,015	-
Amounts owed by group undertakings	-	2,217	-	148
Deferred tax asset (see note 16)	52	3	44	3
Other debtors	1,192	982	229	22
Prepayments and accrued income	1,551	32	1,159	19
	<u>40,957</u>	<u>3,234</u>	<u>28,447</u>	<u>192</u>

### 14 Creditors: Amounts falling due within one year

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Bank overdraft	20,580	2,765	14,117	4,660
Bank loans (see note 15)	-	-	1,625	1,625
Trade creditors	1,143	480	765	28
Corporation tax	1,335	-	609	1
Other taxation and social security	820	-	1,216	28
Other creditors	9,579	71	4,051	10
Accruals and deferred income	3,139	318	3,361	187
Amounts owed to group undertakings	17,256	22,970	-	211
	<u>53,852</u>	<u>26,604</u>	<u>25,744</u>	<u>6,750</u>

The bank overdrafts are part of a group banking facility and are secured by joint guarantees, 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 £18,752,000 at 31 October 2006 (2005 - £9,758,000).

## Notes to financial statements (continued)

31 October 2006

### 15 Creditors: Amounts falling due after more than one year

	Group	Company	Group As restated See note 1	Company As restated See note 1
	2006 £'000	2006 £'000	2005 £'000	2005 £'000
Bank loans	-	-	3,250	3,250
Subordinated 'A' loan notes and 'B' loan notes	-	-	12,268	12,268
Preference shares (see note 17)	2,425	2,425	2,425	2,425
Other creditors	280	-	-	-
	<u>2,705</u>	<u>2,425</u>	<u>17,943</u>	<u>17,943</u>

On 30 July 2004 the company issued two loan note instruments. Both '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 were redeemed in full on 4 September 2006.

The loan notes are stated net of accrued interest payments and allocated finance costs of £nil (2005 - £170,000) for the year, as required under the provisions of FRS 4.

The adoption of FRS 25 "Financial Instruments: Presentation", has resulted in the 'A' and 'B' redeemable preference shares being reclassified from share capital to creditors falling due after more than one year. This has had the effect of increasing creditors due after more than one year and reducing share capital by £2,425,150. The prior periods have been restated accordingly (see note 1).

Notes to financial statements (continued)

31 October 2006

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

Borrowings are repayable as follows:

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
<b>Bank loans</b>				
Between two and five years	-	-	1,625	1,625
Between one and two years	-	-	1,625	1,625
On demand or within one year	-	-	1,625	1,625
	<u>-</u>	<u>-</u>	<u>4,875</u>	<u>4,875</u>
<b>Subordinated 'A' and 'B' loan notes</b>				
Between two and five years	-	-	12,268	12,268
	<u>-</u>	<u>-</u>	<u>12,268</u>	<u>12,268</u>
<b>Preference shares</b>				
Between two and five years	2,425	2,425	2,425	2,425
	<u>2,425</u>	<u>2,425</u>	<u>2,425</u>	<u>2,425</u>
<b>Total borrowings</b>				
Between one and two years	-	-	1,625	1,625
Between two and five years	2,425	2,425	13,893	13,893
On demand or within one year	-	-	1,625	1,625
	<u>2,425</u>	<u>2,425</u>	<u>17,143</u>	<u>17,143</u>

## Notes to financial statements (continued)

31 October 2006

### 16 Deferred taxation

	Group £'000	Company £'000
Beginning of the year	44	3
Credit for the year	8	-
End of the year	<u>52</u>	<u>3</u>

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

	Group 2006 £'000	Company 2006 £'000	Group 2005 £'000	Company 2005 £'000
Accelerated capital allowances	33	-	38	-
Other timing differences	19	3	6	3
	<u>52</u>	<u>3</u>	<u>44</u>	<u>3</u>

### 17 Called-up share capital

	2006 £'000	2005 £'000
<i>Authorised</i>		
1,126,136 ordinary shares of 1p each	11	11
205,990,000 preferred ordinary shares of 1p each	2,060	2,060
10,000 ratchet shares of 1p each	-	-
361,000,000 deferred shares of 1p each	3,610	3,610
556,700 'A' redeemable preference shares of £1 each	557	557
1,868,450 'B' redeemable preference shares of £1 each	1,868	1,868
	<u>8,106</u>	<u>8,106</u>
<i>Allotted, called-up and fully-paid</i>		
600,000 ordinary shares of 1p each	6	6
8,626,416 (2005 – 9,026,316) preferred ordinary shares of 1p each	86	90
10,000 ratchet shares of 1p each	-	-
361,000,000 deferred shares of 1p each	3,610	3,610
	<u>3,702</u>	<u>3,706</u>

All the 'A' and 'B' redeemable preference shares have been allotted, called-up and fully-paid. They are included within creditors due after more than one year (see note 15)

## Notes to financial statements (continued)

31 October 2006

### 17 Called-up share capital (continued)

#### *Ratchet 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 carries 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*

The shares carry no entitlement to dividend and will be redeemed for cash at a price of £1 per share 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, on a resolution affecting the rights attached to the shares or if the preference dividend has remained unpaid.

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.

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 will be applied as follows; the 'A' and 'B' preference shares will 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.

During the year the company redeemed 399,900 preferred ordinary shares with a nominal value of £3,999 for consideration of £221,612. The premium on the redemption of these shares, £217,613 has been taken to the non-distributable capital redemption reserve.

## Notes to financial statements (continued)

31 October 2006

### 18 Reserves

<b>Group</b>	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Total £'000
At beginning of the year	597	4,705	(4,738)	564
Currency difference on foreign currency net investments	-	-	(138)	(138)
Transfer of distributable reserves	-	(2,507)	2,507	-
Share buyback	-	(218)	-	(218)
Shares held by the EBT	-	80	-	80
Retained profit for the year	-	-	1,456	1,456
At end of the year	<u>597</u>	<u>2,060</u>	<u>(913)</u>	<u>1,744</u>

<b>Company</b>	Share premium account £'000	Other reserves £'000	Profit and loss account As restated See note 1 £'000	Total £'000
At beginning of the year (as previously stated)	597	4,705	1,001	6,303
Restatement of dividend income (see note 1)	-	-	(3,550)	(3,550)
At beginning of the year (as restated)	<u>597</u>	<u>4,705</u>	<u>(2,549)</u>	<u>2,753</u>
Transfer of distributable reserves	-	(2,507)	2,507	-
Share buyback	-	(218)	-	(218)
Shares held by the EBT	-	80	-	80
Loss for the year	-	-	(1,468)	(1,468)
Dividends received	-	-	3,550	3,550
At end of the year	<u>597</u>	<u>2,060</u>	<u>2,040</u>	<u>4,697</u>

The shares held by the Employee Benefit Trust (EBT) were sold during the year as part of the acquisition of the company.

The directors have transferred the distributable amounts of £2,507,000 held within other reserves to the profit and loss account.

## Notes to financial statements (continued)

31 October 2006

### 19 Reconciliation of movements in group shareholder's funds

	2006 £'000	2005 £'000
Opening shareholder's funds (as previously stated)	6,695	5,823
Restatement of preference shares	(2,425)	-
Opening shareholder's funds (as restated)	4,270	5,823
Retained profit for the year	1,585	1,012
Other recognised gains and losses relating to the year	(138)	(60)
Transfer to minority interest	(129)	-
Share buyback (see note 17)	(222)	-
Shares held by EBT	80	(80)
Closing shareholder's funds	5,446	6,695

### 20 Minority interests

	£'000
At beginning of the year	1,167
Profit on ordinary activities after taxation	129
Purchase of minority interest (see note 9)	(500)
At end of the year	796

### 21 Reconciliation of operating profit to cash (outflow)/inflow from operating activities

	2006 £'000	2005 £'000
Operating profit	4,276	4,196
Depreciation charges	252	306
Amortisation of goodwill	1,608	1,485
Loss on sale of fixed assets	-	8
Increase in debtors	(14,332)	(2,321)
Increase in creditors	6,247	947
<b>Net cash (outflow)/inflow from operating activities</b>	<b>(1,949)</b>	<b>4,621</b>

The cash flow impact of the exceptional operating items was £1,363,000 (2005 - £320,000).

## Notes to financial statements (continued)

31 October 2006

### 22 Analysis of cash flows

	2006 £'000	2005 £'000
<i>Returns on investments and servicing of finance</i>		
Minority interest dividend	(500)	-
Interest paid	(1,958)	(1,669)
<b>Net cash outflow</b>	<b>(2,458)</b>	<b>(1,669)</b>
<i>Taxation</i>		
Corporation tax paid	(862)	(1,102)
<b>Net cash outflow</b>	<b>(862)</b>	<b>(1,102)</b>
<i>Capital expenditure and financial investment</i>		
Purchase of tangible fixed assets	(462)	(253)
Sale of tangible fixed assets	-	47
<b>Net cash outflow</b>	<b>(462)</b>	<b>(206)</b>
<i>Financing</i>		
Repayment of loans	(813)	(1,625)
Sale of shares held by EBT	80	-
<b>Net cash outflow</b>	<b>(733)</b>	<b>(1,625)</b>

### 23 Analysis and reconciliation of net debt

	At beginning of year £'000	Cash flow £'000	Other non-cash movement £'000	At end of year £'000
Cash in hand, at bank	(5)	1	-	(4)
Overdrafts	14,117	6,463	-	20,580
	14,112	6,464	-	20,576
Debt due after one year	15,518	-	(15,518)	-
Debt due within one year	1,625	(813)	(812)	-
Preference shares	2,425	-	-	2,425
	19,568	(813)	(16,330)	2,425
<b>Net debt</b>	<b>33,680</b>	<b>5,651</b>	<b>(16,330)</b>	<b>23,001</b>

On 4 September 2006 NES Finance Limited acquired NES Group Limited, which resulted in the outstanding bank debt being acquired by NES Finance Limited. This has been shown as a non-cash movement in the table above.

## Notes to financial statements (continued)

31 October 2006

### 23 Analysis and reconciliation of net debt (continued)

	2006 £'000	2005 £'000
Net debt at beginning of the year	(33,680)	(35,269)
Restatement of preference shares (see note 1)	(2,425)	-
Net debt at beginning of the year (as restated)	(36,105)	-
(Decrease)/increase in cash during the year	(6,464)	19
Cash outflow from decrease in debt financing	813	1,625
Change in net debt resulting from cash flows	(5,651)	1,644
Amortisation of finance charges	-	(55)
Acquisition of bank debt	18,755	-
Movement in net debt in the year	13,104	1,589
Net debt at end of the year	(23,001)	(33,680)

### 24 Financial commitments

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

	2006		2005	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
<b>Group</b>				
Expiry date				
- within one year	132	90	122	55
- between one and two years	132	193	15	149
- between two and five years	355	1	365	13
- after five years	31	-	82	-
	<u>650</u>	<u>284</u>	<u>584</u>	<u>217</u>

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.

## Notes to financial statements (continued)

31 October 2006

### 25 Related parties

The company has taken advantage of the exemption available in FRS 8 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.

	2006 £'000	2005 £'000
NES Computer Services Limited	126	114
NES Overseas Limited	184	57
NES Overseas Hong Kong Limited	41	29
NES Overseas USA LLC	95	115
NES Overseas SDN BHD	-	29
NES Overseas LLC	-	29
NES Overseas Qatar WLL	-	29
	<u>446</u>	<u>402</u>

### 26 Ultimate parent company

The directors consider NES Holdings Limited, a company incorporated in England and Wales, to be the company's ultimate parent company and controlling party.