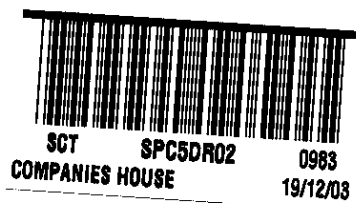


I.T. Xchange Limited

Directors' report and financial statements

Registered number SC213655

31 July 2003



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Directors' report

The directors present their report with the financial statements of the company for year ended 31 July 2003.

Principal activity

The principal activity of the company in the year under review was that of a computer hardware distributor.

Business review

The results for the year and financial position of the company are as shown in the annexed financial statements.

Dividends

No dividends will be distributed for the year ended 31 July 2003 (2002: £nil).

Directors

The directors who held office during the year were as follows:

ME Gray

JJ McFarlane

L McFarlane

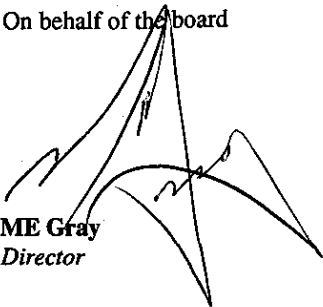
None of the directors held a disclosable interest in the shares of the company.

Auditors

KPMG LLP were reappointed auditors at the annual general meeting. In accordance with Section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

ME Gray
Director



Unit 4C Springkell Street
Greenock
PA15 4 RE

3 November 2003

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. 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, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

Report of the independent auditors to the members of I.T. Xchange Limited

We have audited the financial statements on pages 4 to 10.

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 auditor's 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 are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 July 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in black ink, appearing to read 'KPMG LLP'.

KPMG LLP
Chartered Accountants
Registered Auditor

10 December 2003

Profit and loss account
for the year ended 31 July 2003

	<i>Note</i>	2003 £	2002 £
Turnover		1,851,598	2,785,699
Cost of sales		(1,298,682)	(2,301,618)
Gross profit		552,916	484,081
Administrative expenses		(504,716)	(450,029)
Operating profit	3	48,200	34,052
Foreign exchange translation gain		3,117	9,210
Interest payable and similar charges		(14,542)	(10,001)
Profit on ordinary activities before taxation		36,775	33,261
Tax on profit on ordinary activities	4	(7,484)	(6,422)
Profit for the financial period after taxation	10	29,291	26,839

Balance sheet
at 31 July 2003

	Note	£	2003	£	£	2002	£
Fixed assets							
Tangible assets	5		57,494			64,705	
Current assets							
Stocks	6	348,401			201,375		
Debtors	7	281,039			1,053,532		
Cash at bank and in hand		32,791			158,476		
			662,231		1,413,383		
Creditors: amounts falling due within one year	8	(611,081)			(1,398,735)		
Net current assets			51,150			14,648	
Total assets less current liabilities			108,644			79,353	
Capital and reserves							
Called up share capital	9		1			1	
Profit and loss account			108,643			79,352	
Equity shareholders' funds	10		108,644			79,353	

These financial statements were approved by the board of directors on 3 November 2003 and were signed on its behalf by:

ME Gray
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

Accounting convention

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

Financial Reporting Standard Number 1

Exemption has been taken from preparing a cash flow statement on the grounds that the company qualifies as a small company.

Foreign exchange translation

The profit and loss account for the period is translated using the average exchange rate for the year except for tax, which is translated at the closing rate. The balance sheet is translated at the closing rate for the period, with fixed assets and share capital being translated at historical rate. The difference on translation is taken to the profit and loss account for the period.

Turnover

Turnover represents net invoiced sales of goods, excluding value added tax.

Tangible fixed assets

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Office and computer equipment – 20 to 50%

Plant and machinery – 20%

Fixtures and fittings – 20%

Motor vehicles – 30%

Stocks

Finished goods are valued at the lower of cost and net realisable value.

Deferred taxation

Deferred taxation is recognised at the current rate of taxation in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date.

Notes (continued)

2 Staff costs

	2003 £	2002 £
Wages and salaries	262,182	207,637
Social security costs	23,533	14,328
Pension contributions	8,714	12,385
	<u>294,429</u>	<u>234,350</u>

The average monthly number of employees during the period was as follows:

2003 Number	2002 Number
<u>10</u>	<u>8</u>

3 Operating profit

	2003 £	2002 £
The operating profit is stated after charging/(crediting):		
Amortisation of government grants	(11,931)	-
Depreciation – owned assets	19,876	15,646
Directors' emoluments	<u>50,897</u>	<u>47,862</u>

4 Taxation

Analysis of charge in period

	2003 £	2002 £
<i>UK corporation tax</i>		
Current tax on income for the period	6,500	7,465
Adjustment in respect of prior periods	<u>1,434</u>	<u>(228)</u>
	7,934	7,237
<i>Deferred tax</i>		
Origination of timing differences	1,142	(1,762)
Adjustment in respect of previous years	<u>(1,592)</u>	<u>947</u>
	(450)	(815)
Tax on profit on ordinary activities	<u>7,484</u>	<u>6,422</u>

Notes (continued)

Taxation (continued)

The current corporation tax charge for the year is lower (2002: lower) than the standard rate of corporation tax in the UK 30%, (2002: 30%). The differences are explained below.

	2003 £	2002 £
<i>Current corporation tax reconciliation</i>		
Profit on ordinary activities before tax	36,775	33,261
Current tax at 30% (2002: 30%)	11,032	9,978
<i>Effects of:</i>		
Expenses not deductible for tax purposes	239	610
Capital allowances for period in excess of depreciation	1,332	1,238
Other timing differences	(2,475)	(3,000)
Adjustments to tax charge in respect of previous periods	1,434	(228)
Other (including adjustments for different rates of tax)	(3,628)	(1,361)
Total current corporation tax charge (see above)	7,934	7,237

5 Tangible fixed assets

	Leasehold improvement £	Office and computer equipment £	Plant and machinery £	Fixtures and fittings £	Motor vehicles £	Total £
<i>Cost</i>						
At beginning of year	1,380	23,908	25,342	13,692	15,896	80,218
Additions	1,289	5,304	-	6,072	-	12,665
At 31 July 2003	2,669	29,212	25,342	19,764	15,896	92,883
<i>Depreciation</i>						
At beginning of year	138	3,583	4,125	4,084	3,583	15,513
Charge for year	386	5,898	4,187	2,959	6,446	19,876
At 31 July 2003	524	9,481	8,312	7,043	10,029	35,389
<i>Net book value</i>						
At 31 July 2003	2,145	19,731	17,030	12,721	5,867	57,494
At 31 July 2002	1,242	20,325	21,217	9,608	12,313	64,705

Notes (continued)

6 Stocks

	2003 £	2002 £
Finished goods	348,401	201,375

7 Debtors: amounts falling due within one year

	2003 £	2002 £
Trade debtors	254,174	1,034,239
Prepayments and accrued income	25,600	18,478
Deferred taxation (see below)	1,265	815
	<u>281,039</u>	<u>1,053,532</u>

Deferred taxation

	£
Credit to profit and loss account	450
At beginning of year	815
At end of year	<u>1,265</u>
<i>Deferred taxation comprises:</i>	
Capital allowances in excess of depreciation	(180)
Other timing differences	1,445
	<u>1,265</u>

8 Creditors: amounts falling due within one year

	2003 £	2002 £
Bank overdraft	208,986	-
Trade creditors	42,951	547,288
Amounts owed to group undertaking	289,053	771,204
Corporation tax	6,500	4,159
Accrued charges and deferred income	63,591	76,084
	<u>611,081</u>	<u>1,398,735</u>

The company has granted a bond and floating charge in favour of HSBC Bank Plc over the whole company and its assets in respect of amounts due or falling due in future. The company has further granted a floating charge in favour of HSBC Bank Canada over the whole company and its assets in respect of operating loan facilities for I.T. Xchange Inc. and IT Xchange Corp. (related companies) of \$4,000,000 Canadian dollars (approximately £1,771,365). The amount outstanding at 31 July 2003 in respect of these related company facilities was £762,385.

Notes (continued)

9 Called up share capital

	2003 £	2002 £
<i>Authorised</i>		
1,000 ordinary shares of £1 each	1,000	1,000
<i>Allotted, issued and fully paid</i>		
1 ordinary share of £1	1	1

10 Reconciliation of movement in shareholders' funds

	2003 £	2002 £
Profit for the financial period	29,291	26,839
Opening shareholders' funds	79,353	52,514
Closing shareholders' funds	108,644	79,353

11 Ultimate parent undertaking

The company is a subsidiary undertaking of I.T. Xchange LLC, incorporated in the United States of America.
The consolidated accounts of this company are not available to the public.

12 Related party transactions

During the year, the company transacted with I.T. Xchange Inc., IT Xchange Corp., and I.T. Xchange DMP Ltd.. These companies together with I.T. Xchange Limited form I.T. Xchange LLC. The transactions (excluding VAT) with the members are as follows: -

	<u>Management charges</u>	<u>Sales/(Purchases)</u>
I.T. Xchange Inc.	£36,346	£365,952
IT Xchange Corp.	-	£(80,942)
I.T. Xchange DMP Ltd.	£4,069	-

At the balance sheet date, £228,802 was due to IT Xchange Corp., £30,747 was due to I.T. Xchange DMP Ltd. and £29,504 was due to I.T. Xchange Inc..