

I.T. Xchange Limited

Directors' report and financial statements

Registered number SC213655

31 July 2004



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Directors' report

The directors present their report with the financial statements of the company for year ended 31 July 2004.

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 2004 (2003: *£nil*).

Directors

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

ME Gray
JJ McFarlane
L McFarlane
A Munro

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



A Munro
Director

21A Burnbrae Drive
Linwood Business Park
Paisley
PA3 3BW

27 October 2004

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.



191 West George Street
Glasgow
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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 2004 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 dark ink, appearing to read 'KPMG LLP' followed by a flourish.

KPMG LLP
Chartered Accountants
Registered Auditor

27 October 2004

Profit and loss account
for the year ended 31 July 2004

	<i>Note</i>	2004 £	2003 £
Turnover		2,694,836	1,851,598
Cost of sales		(1,650,715)	(1,298,682)
Gross profit		1,044,121	552,916
Administrative expenses		(822,379)	(504,716)
Operating profit	3	221,742	48,200
Foreign exchange translation (loss)/gain		(10,146)	3,117
Interest payable and similar charges		(21,095)	(14,542)
Profit on ordinary activities before taxation		190,501	36,775
Tax on profit on ordinary activities	4	(55,843)	(7,484)
Profit for the financial period after taxation	10	134,658	29,291

Balance sheet
at 31 July 2004

	<i>Note</i>	2004	2003
		£	£
Fixed assets			
Tangible assets	5	68,707	57,494
Current assets			
Stocks	6	776,408	348,401
Debtors	7	215,511	281,039
Cash at bank and in hand		23,673	32,791
		<u>1,015,592</u>	<u>662,231</u>
Creditors: amounts falling due within one year	8	<u>(840,997)</u>	<u>(611,081)</u>
Net current assets		<u>174,595</u>	<u>51,150</u>
Total assets less current liabilities		<u>243,302</u>	<u>108,644</u>
Capital and reserves			
Called up share capital	9	1	1
Profit and loss account		243,301	108,643
Equity shareholders' funds	10	<u>243,302</u>	<u>108,644</u>

These financial statements were approved by the board of directors on 27 October 2004 and were signed on its behalf by:



A Munro
 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

	2004 £	2003 £
Wages and salaries	300,456	262,182
Social security costs	34,550	23,533
Pension contributions	20,676	8,714
	<u>355,682</u>	<u>294,429</u>
	2004 Number	2003 Number
The average monthly number of employees during the period was	<u>12</u>	<u>10</u>

3 Operating profit

	2004 £	2003 £
The operating profit is stated after charging/(crediting):		
Amortisation of government grants	(10,870)	(11,931)
Depreciation – owned assets	23,176	19,876
Directors' emoluments	94,246	50,897
Loss on disposal of fixed assets	2,145	-
	<u></u>	<u></u>

4 Taxation

Analysis of charge in period

	2004		2003	
	£	£	£	£
<i>UK corporation tax</i>				
Current tax on income for the period		55,676		6,500
Adjustment in respect of prior periods		167		1,434
		<u>55,843</u>		<u>7,934</u>
<i>Deferred tax</i>				
Origination of timing differences	-		1,142	
Adjustment in respect of previous years	-		(1,592)	
		<u>-</u>		<u>(450)</u>
Tax on profit on ordinary activities		<u>55,843</u>		<u>7,484</u>

Notes (continued)

Taxation (continued)

The current corporation tax charge for the year is lower (2003: lower) than the standard rate of corporation tax in the UK 30%, (2003: 30%). The differences are explained below.

	2004 £	2003 £
<i>Current corporation tax reconciliation</i>		
Profit on ordinary activities before tax	190,489	36,775
Current tax at 30% (2003: 30%)	57,147	11,032
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1,576	239
Capital allowances for period in excess of depreciation	-	1,332
Other timing differences	-	(2,475)
Adjustments to tax charge in respect of previous periods	167	1,434
Other (including adjustments for different rates of tax)	(3,047)	(3,628)
Total current corporation tax charge (see above)	55,843	7,934

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	2,669	29,212	25,342	19,764	15,896	92,883
Additions	6,064	11,892	12,781	5,695	-	36,432
Disposals	(2,669)	-	-	-	(15,896)	(18,565)
At 31 July 2004	6,064	41,104	38,123	25,459	-	110,750
<i>Depreciation</i>						
At beginning of year	524	9,481	8,312	7,043	10,029	35,389
Charge for year	2,852	7,320	5,403	3,777	5,867	25,219
Eliminated on disposal	(2,669)	-	-	-	(15,896)	(18,565)
At 31 July 2004	707	16,801	13,715	10,820	-	42,043
<i>Net book value</i>						
At 31 July 2004	5,357	24,303	24,408	14,639	-	68,707
At 31 July 2003	2,145	19,731	17,030	12,721	5,867	57,494

Notes (continued)

6 Stocks

	2004 £	2003 £
Finished goods	776,408	348,401

7 Debtors: amounts falling due within one year

	2004 £	2003 £
Trade debtors	176,567	254,174
Prepayments and accrued income	37,679	25,600
Deferred taxation (see below)	1,265	1,265
	<u>215,511</u>	<u>281,039</u>

Deferred taxation

	£	£
Credit to profit and loss account	-	450
At beginning of year	1,265	815
	<u>1,265</u>	<u>1,265</u>
<i>Deferred taxation comprises:</i>		
Capital allowances in excess of depreciation	1,565	(180)
Other timing differences	(300)	1,445
	<u>1,265</u>	<u>1,265</u>

8 Creditors: amounts falling due within one year

	2004 £	2003 £
Bank overdraft	276,193	208,986
Trade creditors	148,717	42,951
Amounts owed to group undertaking	362,548	289,053
Corporation tax	53,539	6,500
Accrued charges and deferred income	-	63,591
	<u>840,997</u>	<u>611,081</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 \$5,000,000 Canadian dollars (approximately £2,065,092). The amount outstanding at 31 July 2004 in respect of these related company facilities was £1,481,940.

Notes (continued)

9 Called up share capital

	2004 £	2003 £
<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

	2004 £	2003 £
Profit for the financial period	134,658	29,291
Opening shareholders' funds	108,644	79,353
Closing shareholders' funds	243,302	108,644

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:

	Management charges	Stock sales/ (purchases)	Sales transactions
I.T. Xchange Inc.	130,744	140,733	(70,813)
I.T. Xchange Corp.	-	(75,859)	(249,431)
I.T. Xchange DMP Ltd.	-	-	21,202

At the balance sheet date, £59,512 was due to IT Xchange Corp., £49,596 was due to I.T. Xchange DMP Ltd. and £372,464 was due to I.T. Xchange Inc..