



# **DX Group Limited**

Report and financial statements  
for the year ended 30 June 2008

Company number 5769062

## **DX Group Limited**

---

### **Contents**

---

	<b>Page</b>
Directors and advisers	1
Directors' report	2
Independent auditors' report	9
Consolidated profit and loss account	11
Consolidated statement of total recognised gains and losses	11
Consolidated balance sheet	12
Company balance sheet	13
Consolidated cash flow statement	14
Notes to the financial statements	15

---

**Directors and advisers**

**Directors**

*Executive directors:*

John Coghlan

Ian Pain

Michael Stone

*Non-executive directors:*

Alexis Dormandy

Ian Gray

James Greenbury

David Mitchell

Bill Rogers

Emma Watford

**Company secretary**

Ian Pain

**Auditors**

Deloitte & Touche LLP

Reading

**Bankers**

Bank of Scotland

New Uberior House

11 Earl Grey Street

Edinburgh EH3 9NB

**Solicitors**

Travers Smith LLP

DX79 London City

10 Snow Hill

London

EC1A 2AL

**Registered office**

DX1 Iver

DX House

Ridgeway

Iver

Buckinghamshire SL9 0JQ

**Registered number**

5769062

### Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2008.

#### **Results and dividends**

The loss for the financial year after taxation was £39.8 million (10 months to 30 June 2007: £36.6 million), after charging exceptional costs of £3.8 million (10 months to 30 June 2007: £5.8 million) and goodwill amortisation of £24.1 million (10 months to 30 June 2007: £20.1 million).

The directors do not recommend the payment of a dividend on the ordinary shares.

#### **Principal activities and review of the business**

The group's continuing activities are the provision of mail services. The principal activity of the company is that of a holding company.

The DX group ('DX') is the leading independent provider of early morning, next day business to business mail and parcel services in the United Kingdom and the Republic of Ireland, and of secure mail services in the UK; 17,000 companies use the Document Exchange or mail and parcel services to send time critical and secure mail.

DX currently has three main products:

- The DX Document Exchange ('DE') is a business to business mail service that provides customers with significant cost and performance advantages over the Royal Mail first class and is delivered through a national network of around 4,500 exchanges. The primary markets include the legal, government and financial services sectors.
- The Direct to door delivery ('DTD') business leverages synergies with the DE delivery infrastructure to create market leading cost advantages for packet delivery to branch networks in high street and retail park locations. The primary focus for packet delivery services is high street retailers and businesses that require regular scheduled deliveries to branch networks.  
  
The DTD footprint also provides a capability to deliver publications and bulk mail to approximately 10% of UK postcodes.
- The Secure mail capability provides market leading business to consumer mail security at a highly competitive price to customers that range from the Passport Office and banks through to theatre ticket agencies.

#### **Business objectives and strategies**

The key elements of the group's strategy for accelerating growth and creating shareholder value are:

- achievement of leading positions in markets capable of long term growth;
- targeted investment in new product development, innovation and marketing to support strong organic growth and profitability;
- investment in new technology to improve both operational efficiency and customer service levels; and
- focussed acquisitions which meet strict rate of return criteria.

#### **Key financial and other performance objectives**

Revenues grew in all of the group's constituent businesses for the first time for some years in the year ended 30 June 2008. As part of the strategy to maintain the group's pre-eminent position in the secure bank card delivery market, Challenger Security Services (Admin) Limited was acquired during the year, and its operations immediately integrated with the Secure mail business.

## DX Group Limited

### Directors' report

The group's key financial and other performance indicators during the current year and previous period were as follows:

	2008 (12 months)	2007 (10 months)	Change
Group turnover (£m)	£173.6m	£143.1m	+ £30.5m
Operating profit before exceptional items, business plan implementation costs and goodwill amortisation (£m)	£41.1m	£32.6m	+ £8.5m
As percentage of turnover (%)	23.7%	22.8%	+ 0.9%
Loss after tax (£m)	£39.8m	£36.6m	+ £3.2m
Total assets less current liabilities (£m)	£426.4m	£445.3m	- £18.9m
Interest cover (excluding goodwill amortisation, preference dividends and investor loan note interest) (times)	1.5 x	1.3 x	+ 0.2 x
Net cash flow from operating activities (£m)	£39.0m	£29.7m	+ £9.3m
Average number of employees (no.)	1,687	1,752	- 65

Group turnover increased during the year on an annualised basis by 2.4%:

- DE growth came mostly in the Republic of Ireland, together with the full year benefit of the introduction of the new DE secure mail product, SecureDX. UK DE revenues were stabilised after a period of annual decline. In response to customer concerns a rebalanced DE pricing tariff has been introduced.
- The main source of growth in DTD revenues came from increased penetration of the publications market.
- The Secure mail business won a new contract with The Identity and Passports Service to deliver passports against significant competition from the group's major competitor in this area. A key factor in the retention of the contract was the group's delivery and security performance under the contract. Prices were reduced to retain the contract, and Secure mail revenue growth came mainly from increased bank card volumes.

Operating profit before exceptional items, business plan implementation costs and goodwill amortisation increased as a percentage of turnover from 22.8% to 23.6%, reflecting the benefit of the activities undertaken during the current and previous year to improve the efficiency of the group's collection and delivery operations, including the integration of the group's facilities where a clear and identifiable benefit could be demonstrated. £3.3 million was incurred during the year in implementing these changes.

After goodwill amortisation of £24.1m, third party interest costs of £25.6 million, shareholder related interest costs of £27.7 million (including accrued preference dividends of £19.0 million) and a tax credit of £0.4 million, the loss after tax was £39.2 million, compared with £36.6 million in the 10 months to 30 June 2007.

Total assets less current liabilities reduced by £18.9 million during the year, of which £24.1 million arises from the amortisation of goodwill. Net current liabilities reduced by £4.7 million.

Interest cover has improved on prior year and ensures that the group is able to comply with its banking covenants.

Net cash flow from operating activities increased from £29.7m to £39.0m, mainly driven by the increase in operating profit before goodwill amortisation.

### **Directors' report**

#### ***Employee matters***

DX employs a culturally diverse workforce representative of the local population in the areas where we operate. DX is committed to providing equal opportunities of employment to all staff, regardless of their gender, nationality, colour or creed. The group's policies on recruitment, training, career development and promotion are based solely on the ability of the individual and the needs of the group's business.

Disabled persons are given equal treatment with the able bodied. For employees who have become disabled after joining the group, every effort is made to enable them to continue in employment and suitable retraining and/or an offer of alternative employment is provided where possible.

DX has a number of stakeholder pension schemes, and actively encourages participation in these schemes. The group continues to invest in its people with a dedicated specialist in reward structures and an ongoing programme of performance management, learning and development. During the year a number of voluntary benefits have been introduced to support employees' welfare. These include childcare vouchers, life assurance and medical health cover along with a discounted holiday scheme.

The group has had a successful year introducing NVQs and Institute of Leadership Management programmes throughout the business and was awarded accreditation for the ILM programmes during the year.

Each member of the senior management team takes personal responsibility for communicating with a part of the business. Employees are given opportunities to talk candidly with a member of the senior management team, including open forums with each night shift at every service centre.

DX wishes to have the considered views of employees over a wide range of subjects and thus encourages an active interest in group activities at all levels. This aim is achieved through a fully representative 'Employee Partnership' programme, which ensures two way communications and employee involvement. The group has redesigned its communication and consultation forums, holding representative elections with considerable success. Fortnightly news bulletins are distributed throughout the company and a quarterly newspaper is produced with a mixture of business and employee news. We have also introduced news via text message to ensure communications are kept current.

#### ***Environment matters***

DX is committed to being an environmentally responsible group and aims to manage its activities in line with environmental legislation and to minimise the impact on the environment.

#### ***Social responsibility***

Since 1997, DX has been providing a nationwide service conveying hundreds of boxes of recycled spectacles for Vision Aid Overseas. Vision Aid Overseas' work is focused on helping people in the developing world whose existence has been blighted by poor eyesight. Every month, DX makes dozens of collections of donated spectacles from opticians' practices in the United Kingdom and its regular deliveries result in an average of 1.1 million pairs of spectacles being delivered to Vision Aid Overseas' offices throughout the course of each year.

DX donates its services to allow Vision Aid Overseas to concentrate its funds directly on the projects it supports. Without a reliable delivery service that ensures the efficient and consistent collection of donated spectacles from across the country, Vision Aid Overseas' work would be severely hampered. DX is delighted to be able to help VAO make such a positive impact on so many peoples' lives.

#### ***Significant contractual and other relationships***

The group has a number of important relationships with its customers, suppliers and bankers. No single customer accounts for more than 10% of the group's sales, and no single supplier accounts for more than 5% of the group's purchases. Contracts with the group's major customers tend to cover periods of up to three years.

**Directors' report**

The group has arranged its debt finance through a syndicate of banks to access the level of funding required for its leveraged structure. Compliance with the banking covenants contained in the facility agreements and repayment of the borrowings according to the repayment profiles is critical to the group continuing as a viable business concern in the future. Details of the debt levels of the group are provided in note 17 to the financial statements.

***Main trends and factors likely to affect future performance***

The main trends and factors likely to affect the future development and performance of the group's business include:

**The property market:** The decline in the UK property market is reducing the number of property transactions and therefore the volumes of property-related documentation being carried through the DE network. However, the group is aware that existing Members are not using the service to its full potential and are sending mail via alternative providers that could be sent more efficiently and cost effectively via DX. The group is in the process of launching new initiatives to increase usage and volumes from existing customers and to widen the network's sector coverage.

**The 'credit crunch':** The 'credit crunch' currently being experienced throughout the UK economy is reducing volumes being carried through the group's network in a number of areas, but in particular bank cards. The group is exploring new sectors that are able to benefit from the group's high standards of secure delivery to ensure that overall volumes being carried through the network are maintained.

**Fuel prices:** Although prices are now falling from their peak, diesel prices are increasing operating costs as the group's suppliers of trunking and courier services seek to recover these price increases in their contract prices. The group is taking a number of actions to mitigate these cost increases, including ensuring that cost increases are passed onto customers wherever possible.

***Principal risks and uncertainties***

The group has established a risk management programme to identify the main risks that the group is exposed to and ensure that appropriate policies and procedures are in place to minimise these risks to the group, including the establishment of appropriate business continuity planning arrangements.

The principal risks that the group faces broadly comprise commercial risks and financing risks.

**Commercial risks:** The main commercial risks that the business currently faces are:

---

<b><i>Risk</i></b>	<b><i>How the risk is managed</i></b>
Competition from Royal Mail and other mail providers	By providing high levels of service quality at competitive prices, maintaining strong relationships with major customers and developing new services in response to customer needs.
The challenges of operating in a highly regulated environment	By implementing processes within the network and a rigorous programme of mail integrity audits.

---

**Financing risks:** The group's strategy in managing its interest rate risk is to reduce its exposure to movements in interest rates through the use of hedging instruments.

Total borrowings of £317.9 million at 30 June 2008 include £252.4 million of bank loans drawn down under a £225.0 million senior facilities agreement, expiring on 31 December 2015, and a £57.2 million mezzanine facility agreement, expiring on 30 June 2016, both facilities bearing interest at floating rates. In order to manage interest rate risk on these borrowings, interest rate swaps are used to convert a proportion of the bank borrowings to fixed rate borrowings. At 30 June 2008, debt of £187.3 million (74% of total bank debt) was converted to a fixed interest rate.

### Directors' report

The risk that the group is unable to meet a payment obligation is mitigated by significant undrawn credit facilities, particularly a £15 million revolving credit facility of which £13.6 million was available to be utilised as at 30 June 2008.

Throughout the year ended 30 June 2008 the group was fully compliant with its banking facility agreements.

DX's exposure to credit and foreign exchange risks are minimal and it has not implemented any specific strategies for managing these risks.

#### **Future developments**

The directors aim to maintain the progress that the group has made since it came into being in September 2006 through further enhancement of the group's product range, and to continue the programme of activities to increase the efficiency of the group's operations. Consideration will be given to the development of new services and penetration of new market segments where this will lead to profitable and sustainable growth.

#### **Events after the balance sheet date**

On 1 September 2008 the group announced that it had acquired the In-Night and PX Worldwide Licensing operations of Business Direct Limited, a wholly owned subsidiary of Business Direct Group plc. The acquisition was effected by acquiring the trade and fixed assets of the operations from the Administrator of Business Direct Limited through a newly formed subsidiary, DX Business Direct Limited.

The acquisition gives the group a national infrastructure to provide spare part logistics, primarily supporting field based engineers, through:

- the Parcel Exchange ('PX') – a 'virtual depot' network of over 4,000 fully automated intelligent drop boxes;
- In Boot – collections and deliveries direct to a field engineer's vehicle;
- Pick Up Drop Off – the collection and return of spare parts via manned third party locations; and
- the potential to licence the PX technology and expertise internationally.

The consideration paid to the Administrator was £0.5 million. In addition, the group will be making further investments to purchase additional related assets and in working capital. In aggregate the total investment required is estimated at £4 million.

The acquisition of these operations represents the opportunity for the group to:

- become a leading player in the adjacent service management market;
- develop the services available to In-Night customers from the integration of aspects of the these operations with existing DX operations;
- use the secure PX network to extend the services we offer to existing customers;
- market the PX concept internationally via licensing arrangements; and
- develop the emerging potential for extending the PX concept to service the rapidly expanding B2C market.

#### **Share capital and ownership**

The company's authorised and issued share capital and movements therein are shown in note 19 to the financial statements.

The majority shareholder in the company is Candover Partners Limited, a private equity fund headquartered in the United Kingdom, which is represented on the board of directors by Alexis Dormandy, Ian Gray, Bill Rogers and Emma Watford.

At 30 June 2008, 11.0% of the ordinary shares of the company was owned by the directors and other members of the management team and a further 5.8% was owned by the group's employee benefit trust.

**Directors' report**

**Directors**

The directors at the end of the year were as follows:

**Executive directors:**

John Coghlan	Chief Executive
Ian Pain	Chief Financial Officer
Michael Stone	Chief Operating Officer
Alan Whelan	Sales and Marketing Director

**Non-executive directors – representatives of Candover Partners Limited:**

Alexis Dormandy	Appointed 21 February 2008
Ian Gray	
Bill Rogers	
Emma Watford	

**Other non-executive directors:**

James Greenbury	
David Mitchell	Chairman

Alan Whelan resigned as a director on 18 July 2008.

There have been no other changes since the end of the year.

**Charitable and political donations**

The group provides support to Vision Aid Overseas ('VAO') by collecting and distributing, at no charge, spectacles within the UK for reconditioning and onward transportation to Africa for reuse. Financial support was also provided to VAO in the form of sponsorship of its annual review and other projects, amounting to £4,000 (10 months to 30 June 2007: £4,000).

Other charitable donations in the year amounted to £1,000 (10 months to 30 June 2007: £13,500).

No payments were made to political parties.

**Payments to suppliers**

It is the group's policy to make payments to suppliers in accordance with agreed terms, provided that the supplier has performed in accordance with those agreed terms and conditions. Creditor days (creditors outstanding at the year end as a proportion of purchases in the last month of the year) for the group at 30 June 2008 were 10.3 days (2007: 11.6 days).

**Auditors**

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he/she ought to have taken as a director in order 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 provisions of S234ZA of the Companies Act 1985.

**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 year. In preparing these 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;

**Directors' report**

- state whether applicable UK Accounting Standards have been followed; and
- 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 the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements.

**Directors' and officers' insurance and indemnities**

The company maintains appropriate directors' and officers' liability insurance for the benefit of the directors.

By order of the board

**Ian Pain**

Company Secretary

21 October 2008

**Independent auditors' report  
to the members of DX Group Limited**

We have audited the financial statements of DX Group Limited for the year ended 30 June 2008 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 29. 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 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 United Kingdom 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, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We 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 directors' report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within it.

**Basis of audit opinion**

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

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

**Independent auditors' report  
to the members of DX Group Limited**

**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 affairs of the group and the company as at 30 June 2008 and of the group loss 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  
Reading  
United Kingdom

21 October 2008

## DX Group Limited

### Consolidated profit and loss account for the year ended 30 June 2008

		2008 12 months £m	2007 10 months £m
<b>Turnover</b>	2	<b>173.6</b>	<b>143.1</b>
Operating costs before exceptional items and goodwill amortisation	3	(132.5)	(110.5)
<b>Operating profit before exceptional items and goodwill amortisation</b>		<b>41.1</b>	<b>32.6</b>
Exceptional items	3, 6	(3.8)	(5.8)
Goodwill amortisation	3	(24.1)	(20.1)
<i>Total operating costs</i>	3	<i>160.4</i>	<i>136.4</i>
<b>Total operating profit</b>		<b>13.2</b>	<b>6.7</b>
<b>Finance charges (net):</b>			
Third party		(25.7)	(20.6)
Shareholder related		(27.7)	(20.5)
<b>Total finance charges (net)</b>	7	<b>(53.4)</b>	<b>(41.1)</b>
<b>Loss on ordinary activities before taxation</b>		<b>(40.2)</b>	<b>(34.4)</b>
<b>Tax on loss on ordinary activities:</b>			
Before exceptional items and goodwill amortisation		(0.6)	(2.9)
Exceptional items and goodwill amortisation		1.0	0.7
<b>Total tax on loss on ordinary activities</b>	8	<b>0.4</b>	<b>(2.2)</b>
<b>Loss on ordinary activities after taxation:</b>	9		
Before exceptional items and goodwill amortisation		(13.0)	(11.4)
Exceptional items and goodwill amortisation		(26.8)	(25.2)
<b>Loss for the year transferred from reserves</b>	20	<b>(39.8)</b>	<b>(36.6)</b>

All results are derived from continuing operations.

### Consolidated statement of total recognised gains and losses for the year ended 30 June 2008

		2008 12 months £m	2007 10 months £m
Loss for the financial year		(39.8)	(36.6)
Currency translation difference on foreign currency net investments		0.3	-
<b>Total gains and losses relating to the year</b>		<b>(39.5)</b>	<b>(36.6)</b>

## DX Group Limited

### Consolidated balance sheet as at 30 June 2008

	Notes	2008 £m	2007 £m
<b>Fixed assets:</b>			
Intangible fixed assets	10	437.8	460.6
Tangible fixed assets	11	10.8	11.6
		<b>448.6</b>	<b>472.2</b>
<b>Current assets:</b>			
Debtors	14	34.4	29.9
Cash at bank and in hand		11.8	16.1
		<b>46.2</b>	<b>46.0</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>(68.4)</b>	<b>(72.9)</b>
<b>Net current liabilities</b>		<b>(22.2)</b>	<b>(26.9)</b>
<b>Total assets less current liabilities</b>		<b>426.4</b>	<b>445.3</b>
<b>Creditors: amounts falling due after more than one year:</b>			
Third party	16	239.5	246.3
Shareholder related		256.1	228.3
		495.6	474.6
Provisions for liabilities and charges	18	1.1	1.1
		<b>496.7</b>	<b>475.7</b>
<b>Capital and reserves:</b>			
Called up share capital	19	0.6	0.6
Share premium account	20	5.6	5.6
Own shares	20	(0.4)	-
Profit and loss account	20	(76.1)	(36.6)
<b>Shareholders' funds</b>	20	<b>(70.3)</b>	<b>(30.4)</b>
		<b>426.4</b>	<b>445.3</b>

These financial statements were approved by the board of directors on 21 October 2008 and signed on its behalf by:

John Coghlan

Ian Pain

## DX Group Limited

---

### Company balance sheet as at 30 June 2008

	Notes	2008 £m	2007 £m
<b>Fixed assets:</b>			
Investments	12	164.0	164.0
		<b>164.0</b>	<b>164.0</b>
<b>Current assets:</b>			
Debtors	14	1.9	0.5
Cash at bank and in hand		0.1	0.4
		<b>2.0</b>	<b>0.9</b>
<b>Creditors: amounts falling due within one year</b>	15	<b>(4.9)</b>	<b>(3.5)</b>
<b>Net current liabilities</b>		<b>(2.9)</b>	<b>(2.6)</b>
<b>Total assets less current liabilities</b>		<b>161.1</b>	<b>161.4</b>
<b>Creditors: amounts falling due after more than one year</b>	16	<b>191.2</b>	<b>172.2</b>
<b>Capital and reserves:</b>			
Called up share capital	19	0.6	0.6
Share premium account	20	5.6	5.6
Profit and loss account	20	(36.3)	(17.0)
<b>Shareholders' funds</b>	20	<b>(30.1)</b>	<b>(10.8)</b>
		<b>161.1</b>	<b>161.4</b>

These financial statements were approved by the board of directors on 21 October 2008 and signed on its behalf by:

John Coghlan

Ian Pain

## DX Group Limited

### Consolidated cash flow statement for the year ended 30 June 2008

	Notes	2008 12 months £m	2007 10 months £m
<b>Net cash flow from operating activities</b>	21	<b>39.0</b>	<b>29.7</b>
<b>Returns on investment and servicing of finance:</b>			
Interest received		0.9	0.5
Interest paid		(22.9)	(18.4)
<b>Net cash outflow from returns on investment and servicing of finance</b>		<b>(22.0)</b>	<b>(17.9)</b>
<b>Taxation:</b>			
UK corporation tax paid		(1.5)	(4.4)
Foreign tax paid		(0.5)	(0.3)
<b>Tax paid</b>		<b>(2.0)</b>	<b>(4.7)</b>
<b>Capital expenditure:</b>			
Payments to acquire tangible fixed assets		(4.2)	(2.5)
Receipts from sales of tangible fixed assets		-	0.6
<b>Net cash outflow from investing activities</b>		<b>(4.2)</b>	<b>(1.9)</b>
<b>Acquisitions:</b>			
Purchase of DX Services Limited		-	(413.1)
Purchase of Secure Mail Services Limited	13	(11.0)	(30.3)
Purchase of Challenger Security Services (Admin) Limited	13	(0.4)	-
Loan to employee benefit trust to acquire shares in DX Group Limited		(0.4)	-
<b>Net cash outflow from acquisitions</b>		<b>(11.8)</b>	<b>(443.4)</b>
<b>Net cash outflow before financing</b>		<b>(1.0)</b>	<b>(438.2)</b>
<b>Financing:</b>			
Issue of share capital		0.1	162.6
Bank borrowings		-	251.9
Bank borrowings repaid		(3.3)	(0.5)
Investor loan notes		-	49.7
Payment of loan issue costs		-	(9.1)
Repayment of finance leases		(0.3)	(0.3)
<b>Net cash (outflow)/inflow from financing</b>		<b>(3.5)</b>	<b>454.3</b>
<b>(Decrease)/increase in cash in the year</b>	22	<b>(4.5)</b>	<b>16.1</b>

**Notes to the financial statements  
for the year ended 30 June 2008**

**1 Significant accounting policies**

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

**Basis of accounting**

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

**Basis of consolidation**

The group financial statements consolidate the accounts of DX Group Limited and all of its subsidiary undertakings ('subsidiaries') drawn up to 30 June each year. The results of subsidiaries acquired or sold are consolidated for the years 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 subsidiaries 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 amortised on a straight line basis over the shorter of its estimated economic useful life and 20 years. Provision is made for any impairment.

**Investments**

Shares in, and loans to, subsidiaries are valued at cost less provision for impairment.

**Tangible fixed assets**

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment. Depreciation of fixed assets is provided on a straight line basis calculated at rates to write off the cost less estimated residual value of each asset over the term of its expected useful life.

The following rates are used:	% per annum
Land and buildings:	
Land	Nil
Freehold buildings	2 - 2.5
Short leasehold properties	4 - 20
Plant, machinery and other equipment	10 - 25

**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 laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in years different from those in which they are included in the financial information. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the associate.

**Notes to the financial statements  
for the year ended 30 June 2008**

**1 Significant accounting policies  
(continued)**

**Leases**

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the year of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the year of the lease.

**Pension costs**

The group operates a number of defined contribution pension schemes. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either creditors or debtors in the balance sheet.

**Foreign currencies**

The assets and liabilities of foreign companies denominated in foreign currencies are translated into sterling at the rates ruling at the year end. Profits and losses of foreign companies are translated into sterling at average rates of exchange for the year.

The differences arising from the retranslation of the opening balance sheets and retained earnings of foreign companies at the year end rate are dealt with through reserves. Other translation differences are dealt with in the profit and loss account.

**Financial liabilities and equity**

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

**Borrowings**

Interest-bearing borrowings are initially stated at the amount of the net proceeds received after deduction of direct issue costs. Finance charges other than borrowing costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Finance costs are recognised in the profit and loss account over the term of the relevant instruments at a constant rate on the carrying amount.

**Equity instruments**

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

**Notes to the financial statements  
for the year ended 30 June 2008**

**1 Significant accounting policies  
(continued)**

**Turnover**

Turnover represents the value of sales, apportioned over the year to which it relates after excluding trade discounts, value added tax and similar sales related taxes.

Document Exchange subscription income invoiced in advance is deferred and recognised as turnover over the year in which the related service is provided. Deferred subscription income is included in the balance sheet as deferred income within creditors: amounts falling due within one year.

All other turnover is recognised as the service to which it relates is rendered.

**2 Segmental reporting**

The directors consider there to be only one class of business, being the provision of mail services, and one material geographical segment, being the United Kingdom and the Republic of Ireland.

The analysis of turnover by product group is as follows:

	2008 12 months £m	2007 10 months £m
Document Exchange	81.9	68.2
Direct to door delivery	50.8	41.9
Secure mail	40.9	33.0
	<b>173.6</b>	<b>143.1</b>

**Notes to the financial statements  
for the year ended 30 June 2008**

**3 Operating costs**

	2008 12 months £m	2007 10 months £m
Other external charges – excluding exceptional items	84.8	71.2
Other external charges – exceptional items *	3.2	4.1
Other external charges – total	88.0	75.3
Staff costs – excluding exceptional items	36.6	30.1
Staff costs – exceptional items *	0.6	1.4
Staff costs – total (see note 5)	37.2	31.5
Depreciation and other amounts written off tangible fixed assets (owned assets) – excluding exceptional items	4.7	4.7
Depreciation and other amounts written off tangible fixed assets (owned assets) – exceptional items *	-	0.2
Depreciation and other amounts written off tangible fixed assets (owned assets) – total	4.7	4.9
Depreciation and other amounts written off tangible fixed assets (leased assets)	0.3	0.3
Profit on sale of tangible fixed assets	-	(0.4)
Hire of plant – other rentals	1.3	0.5
Other operating lease rentals (including land and buildings) – excluding exceptional items	4.8	4.2
Other operating lease rentals (including land and buildings) – exceptional items *	-	0.1
Other operating lease rentals (including land and buildings) – total	4.8	4.3
Other operating income	-	(0.1)
Goodwill amortisation	24.1	20.1
<b>Operating costs – excluding exceptional items and goodwill amortisation</b>	<b>132.5</b>	<b>110.5</b>
<b>Operating costs – exceptional items and goodwill amortisation</b>	<b>27.9</b>	<b>25.9</b>
<b>Total operating costs</b>	<b>160.4</b>	<b>136.4</b>

\* an analysis of exceptional items is given in note 6.

Amounts charged by the group's current auditors are as follows:

	2008 12 months £000	2007 10 months £000
Fees payable to the company's auditors for the audit of the company's annual accounts	15	10
<i>Fees payable to the company's auditors and their associates for other services to the group:</i>		
The audit of the company's subsidiaries pursuant to legislation	75	75
Total audit fees	90	85
Other services pursuant to legislation:		
- tax services	30	35
Total non-audit fees	30	35
<b>Total fees</b>	<b>120</b>	<b>120</b>

**Notes to the financial statements  
for the year ended 30 June 2008****3 Operating costs  
(continued)**

Amounts charged by the group's previous auditors are as follows:

	2008 12 months £000	2007 10 months £000
Other services:		
- corporate finance and due diligence services	-	4,652
Total non-audit fees	-	<b>4,652</b>

Fees payable to Deloitte & Touche LLP and PricewaterhouseCoopers LLP and their respective associates for non-audit services to the company are not required to be disclosed separately because the consolidated financial statements are required to disclose such fees on a consolidated basis.

**4 Directors' emoluments****Total remuneration:**

	2008 12 months £000	2007 10 months £000
Emoluments	1,262	755
Sums paid to third parties in respect of directors' services	75	62
	<b>1,337</b>	<b>817</b>

No director accrued benefits under money purchase schemes in the current or previous periods.

**Highest paid director:**

	2008 12 months £000	2007 10 months £000
Emoluments	<b>345</b>	<b>252</b>

**5 Staff costs (including executive directors)**

	2008 12 months £m	2007 10 months £m
Wages and salaries	33.9	28.8
Social security costs	3.0	2.5
Other pension costs	0.3	0.2
	<b>37.2</b>	<b>31.5</b>

**Notes to the financial statements  
for the year ended 30 June 2008**

**5 Staff costs (including executive directors)  
(continued)**

**Average number of persons employed (including executive directors):**

	2008 12 months No	2007 10 months No
Sales and marketing	144	123
Network	1,413	1,477
Management and administration	130	126
	<b>1,687</b>	<b>1,726</b>

**6 Exceptional items**

	2008 12 months £m	2007 10 months £m
Costs of restructuring the cost bases of the individual businesses:		
Redundancy and associated costs	0.2	1.4
Other	0.2	0.2
	<b>0.4</b>	<b>1.6</b>
Costs of integrating the businesses:		
Consultancy costs	1.5	0.3
Property integration costs	0.9	-
Other	0.5	0.9
	<b>2.9</b>	<b>1.2</b>
Transaction costs:		
Corporate finance and due diligence fees	0.5	2.6
Business planning advice	-	0.4
	<b>0.5</b>	<b>3.0</b>
<b>Total exceptional items</b>	<b>3.8</b>	<b>5.8</b>

**7 Finance charges (net)**

	2008 12 months £m	2007 10 months £m
<b>Interest payable and similar charges:</b>		
<b><i>Third party:</i></b>		
Bank loans and overdrafts not wholly repayable within five years	24.7	19.8
Other loans wholly repayable within five years	0.2	0.2
Finance lease interest	-	0.1
Other interest	0.5	-
Amortisation of financing costs	1.1	1.0
	<b>26.5</b>	<b>21.1</b>
<b><i>Shareholder related:</i></b>		
Other loans not wholly repayable within five years	8.7	6.3
	<b>35.2</b>	<b>27.4</b>

**Notes to the financial statements  
for the year ended 30 June 2008**

**7 Finance charges (net)  
(continued)**

	2008 12 months £m	2007 10 months £m
<b>Non equity finance costs payable:</b>		
<b>Shareholder related:</b>		
11% preference share dividends	19.0	14.2
<b>Total interest payable and similar charges</b>	<b>54.2</b>	<b>41.6</b>
<b>Interest receivable and similar income:</b>		
<b>Third party:</b>		
Bank deposits	(0.8)	(0.5)
<b>Net interest payable</b>	<b>53.4</b>	<b>41.1</b>
Third party	25.7	20.6
Shareholder related	27.7	20.4
<b>Net interest payable</b>	<b>53.4</b>	<b>41.1</b>

**8 Tax**

**(a) Analysis of charge in year**

	2008 12 months £m	2007 10 months £m
<b>Current tax:</b>		
United Kingdom corporation tax	(0.6)	3.1
Overseas taxation	0.5	0.3
<b>Total current tax</b>	<b>(0.1)</b>	<b>3.4</b>
Deferred tax	(0.3)	(1.2)
<b>Tax on loss on ordinary activities</b>	<b>(0.4)</b>	<b>2.2</b>

The exceptional items gave rise to a tax credit included above of £1.0 million (10 months to 30 June 2007: £0.7 million).

**Notes to the financial statements  
for the year ended 30 June 2008**

**8 Tax  
(continued)**

**(b) Factors affecting the tax charge for year**

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 29.5% (10 months to 30 June 2007: 30%). Due to a change in tax rates, the company will be paying tax at a rate of 30% in respect of the nine months ended 31 March 2008 and 28% in respect of the period from 1 April 2008 to 30 June 2008. An average rate has been applied. The differences are explained below:

	2008 12 months £m	2007 10 months £m
Loss on ordinary activities before tax	(40.2)	(34.4)
Loss on ordinary activities before tax at the standard rate of UK corporation tax of 29.5% (10 months to 30 June 2007: 30%)	(11.8)	(10.3)
Factors affecting charge for year:		
Adjustments in respect of prior period	(1.4)	-
Goodwill amortisation	7.1	6.0
Preference share dividends	5.6	4.3
Loan note interest	0.1	1.4
Depreciation and other amounts written off fixed assets for year in excess of capital allowances	0.9	1.2
Professional fees	-	0.9
Overseas tax charged at lower rates than UK standard rates	(0.5)	(0.3)
Other	(0.1)	0.2
<b>Total actual amount of current tax</b>	<b>(0.1)</b>	<b>3.4</b>

**9 Loss attributable to the company**

The loss on ordinary activities after taxation includes a loss of £19.3 million (10 months to 30 June 2007: £17.0 million) attributable to the company. As permitted under Section 230 of the Companies Act 1985, the company has not published a separate profit and loss account.

**10 Intangible fixed assets**

	Goodwill £m
At 1 July 2007	480.7
Additions	1.3
<b>At 30 June 2008</b>	<b>482.0</b>
<b>Amortisation:</b>	
At 1 July 2007	20.1
Charge for the year	24.1
<b>At 30 June 2008</b>	<b>44.2</b>
<b>Net book value:</b>	
<b>At 30 June 2008</b>	<b>437.8</b>
At 30 June 2007	460.6

## DX Group Limited

### Notes to the financial statements for the year ended 30 June 2008

#### 11 Tangible fixed assets

	Freehold land and buildings £m	Short leasehold land and buildings £m	Plant and equipment £m	Total £m
<b>Cost:</b>				
At 1 July 2007	2.2	8.0	42.1	52.3
Additions	-	1.3	2.9	4.2
Disposals	-	(0.3)	(1.3)	(1.6)
<b>At 30 June 2008</b>	<b>2.2</b>	<b>9.0</b>	<b>43.7</b>	<b>54.9</b>
<b>Depreciation:</b>				
At 1 July 2007	0.5	5.7	34.5	40.7
Charge for the year	0.1	1.0	3.9	5.0
Disposals	-	(0.3)	(1.3)	(1.6)
<b>At 30 June 2008</b>	<b>0.6</b>	<b>6.4</b>	<b>37.1</b>	<b>44.1</b>
<b>Net book value:</b>				
<b>At 30 June 2008</b>	<b>1.6</b>	<b>2.6</b>	<b>6.6</b>	<b>10.8</b>
At 30 June 2007	1.7	2.3	7.6	11.6

The cost of land not being depreciated is £0.7 million (2007: £0.7 million).

The net book value of plant and equipment includes £0.2 million (2007: £0.5 million) in respect of leased assets.

#### 12 Investments

	Shares in group companies £m	Loans to group companies £m	Total £m
<b>Cost:</b>			
<b>At 1 July 2007 and 30 June 2008</b>	162.4	1.6	164.0
<b>Provisions:</b>			
<b>At 1 July 2008 and 30 June 2008</b>	-	-	-
<b>Net book value:</b>			
<b>At 30 June 2008</b>	<b>162.4</b>	<b>1.6</b>	<b>164.0</b>
At 30 June 2007	162.4	1.6	164.0

At 30 June 2008 DX Group Limited owned, directly or indirectly, 100% of each class of issued shares of the following companies:

	Principal activity
Directly owned:	
DX Finance Limited	Intermediate holding company
DX (EBT Trustees) Limited	Dormant
Indirectly owned:	
DX Network Services Limited	Mail services
Secure Mail Services Limited	Mail services
DX Network Services Ireland Limited (registered and operates in the Republic of Ireland)	Mail services
DX Holdings Limited	Intermediate holding company
DX Secure Mail Limited	Intermediate holding company

**Notes to the financial statements  
for the year ended 30 June 2008**

**12 Investments  
(continued)**

DX Services Limited	Intermediate holding company
DX Electronic Services Limited	Dormant
Challenger Security Services (Admin) Limited	Dormant
Special Mail Services Limited	Dormant

The above companies are registered and operate in England and Wales unless otherwise stated.

The investor loan notes detailed in note 16 are listed on the Channel Islands Stock Exchange in the name of DX Finance Limited.

**13 Acquisition of subsidiary undertakings**

***Acquisition of DX Services Limited***

On 23 August 2006 DX Holdings Limited, a wholly owned subsidiary of the company, purchased the whole of the issued share capital of DX Services Limited (formerly DX Services plc) for a total consideration of £356.1 million. Goodwill arising on the acquisition has been taken to intangible fixed assets and is being written off over the directors' estimate of useful life, being 20 years.

The following table sets out the book values of the identifiable assets and liabilities of DX Services Limited acquired and their fair value to the group:

	Book value £m	Adjustments £m	Fair value to group £m
<b>Fixed assets</b>			
Tangible	10.1	-	10.1
<b>Current assets</b>			
Debtors	23.6	(0.3)	23.3
Cash	4.0	-	4.0
<b>Total assets</b>	<b>37.7</b>	<b>(0.3)</b>	<b>37.4</b>
<b>Creditors</b>			
Bank loans	(61.0)	-	(61.0)
Creditors	(12.6)	0.3	(12.3)
Accruals	(9.5)	-	(9.5)
Deferred income	(31.1)	-	(31.1)
<b>Provisions</b>			
Taxation	(1.7)	-	(1.7)
Other	-	(0.7)	(0.7)
<b>Total liabilities</b>	<b>(115.9)</b>	<b>(0.4)</b>	<b>(116.3)</b>
<b>Net liabilities</b>	<b>(78.2)</b>	<b>(0.7)</b>	<b>(78.9)</b>
Goodwill			435.2
			<b>356.3</b>
<b>Discharged by:</b>			
Purchase consideration – cash			349.2
Costs incurred			7.1
<b>Cost of acquisition</b>			<b>356.3</b>

**Notes to the financial statements  
for the year ended 30 June 2008****13 Acquisition of subsidiary undertakings  
(continued)**

The book value of net liabilities acquired has been adjusted for the effect of the acquisition on certain prepayment and creditor balances, and for the anticipated cost of payments to employees on long term sick leave at the date of acquisition. No adjustments to the provisional fair values previously identified have been made.

Goodwill arising on the acquisition increased by £0.2 million during the year following a reassessment of the costs relating to the acquisition.

The net cash flow effect of the acquisition was as follows:

	2007 £m
Purchase of subsidiary	356.1
Settlement of existing obligations in acquired group	<u>61.0</u>
Cash outflow on purchase of subsidiary	417.1
Cash at bank and in hand acquired	<u>(4.0)</u>
<b>Cash outflow effect of the acquisition</b>	<b><u>413.1</u></b>

DX Services Limited and its subsidiaries earned a profit after taxation of £10.9 million in the year ended 30 June 2007 (2006: £12.5 million), of which a loss of £2.5 million arose in the period from 1 July 2006 to 23 August 2006. The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 July 2006 to 23 August 2006, shown on the basis of the accounting policies of DX Services Limited prior to the acquisition, are as follows:

	£m
<b>Turnover</b>	<b>19.7</b>
Operating costs	<u>(16.0)</u>
<b>Operating profit before exceptional items and goodwill amortisation</b>	<b>3.7</b>
Exceptional items – costs incurred in respect of the disposal of the company's shares	(4.1)
Goodwill amortisation	<u>(0.7)</u>
<b>Operating loss</b>	<b>(1.1)</b>
Finance charges (net)	<u>(0.7)</u>
<b>Loss on ordinary activities before taxation</b>	<b>(1.8)</b>
Tax on loss on ordinary activities	<u>(0.7)</u>
<b>Loss for the financial period</b>	<b><u>(2.5)</u></b>
<b>Statement of total recognised gains and losses:</b>	
	£m
Loss for the financial period	(2.5)
Exchange differences	<u>(0.1)</u>
<b>Total recognised gains and losses relating to the period</b>	<b><u>(2.6)</u></b>

**Notes to the financial statements  
for the year ended 30 June 2008**

**13 Acquisition of subsidiary undertakings  
(continued)**

***Acquisition of Secure Mail Services Limited***

On 1 September 2006 DX Secure Mail Limited, a wholly owned subsidiary of the company, purchased the whole of the issued share capital of Secure Mail Services Limited for a total consideration of £41.4 million (2007: £41.2 million). Goodwill arising on the acquisition has been taken to intangible fixed assets and is being written off over the directors' estimate of useful life, being 20 years.

The following table sets out the book values of the identifiable assets and liabilities of Secure Mail Services Limited acquired and their fair value to the group at the date of acquisition:

	Book value £m	Adjustments £m	Fair value to group £m
<b>Fixed assets</b>			
Tangible	4.3	-	4.3
<b>Current assets</b>			
Debtors	4.7	(0.2)	4.5
Taxation	0.1	-	0.1
Cash	1.1	-	1.1
<b>Total assets</b>	<b>10.2</b>	<b>(0.2)</b>	<b>10.0</b>
<b>Creditors</b>			
Bank and other loans	(7.4)	-	(7.4)
Finance leases	(0.9)	-	(0.9)
Creditors	(2.6)	(0.8)	(3.4)
Accruals	(3.0)	0.5	(2.5)
Deferred income	(0.3)	-	(0.3)
<b>Total liabilities</b>	<b>(14.2)</b>	<b>(0.3)</b>	<b>(14.5)</b>
<b>Net liabilities</b>	<b>(4.0)</b>	<b>(0.5)</b>	<b>(4.5)</b>
Goodwill			45.9
			<b>41.4</b>
<b>Discharged by:</b>			
Cash			23.5
Issue of shares in DX Group Limited and investor loan notes in DX Finance Limited			1.9
Issue of guaranteed loan notes			5.3
Deferred consideration			10.0
Costs incurred			0.7
<b>Cost of acquisition</b>			<b>41.4</b>

The book value of net liabilities acquired has been adjusted for the effect of the acquisition on certain prepayment, accrual and creditor balances, and for liabilities arising as a result of the acquisition. No adjustments to the provisional fair values previously identified have been made.

Goodwill arising on the acquisition increased by £0.2 million during the year following a reassessment of the costs relating to the acquisition.

**Notes to the financial statements  
for the year ended 30 June 2008**

**13 Acquisition of subsidiary undertakings  
(continued)**

Deferred consideration of £10.0 million was payable in respect of the acquisition of Secure Mail Services Limited, of which £6.0 million has been settled in the current financial year. The remaining £4.0 million of deferred consideration has been accrued within Creditors: amounts falling due within one year (2007: £6.0 million). At 30 June 2007, £4.0m deferred consideration was included within Creditors: amounts falling due after more than one year.

The net cash flow effect of the acquisition was as follows:

	2008 £m	2007 £m
Payments for the purchase of shares	3.6	23.5
Repayment of guaranteed loan notes issued in respect of acquisition	7.2	-
Costs of acquisition settled in the year	0.2	0.5
Settlement of existing obligations in acquired company	-	7.4
	<hr/>	<hr/>
Cash outflow on purchase of subsidiary	11.0	31.4
Cash at bank and in hand acquired	-	(1.1)
	<hr/>	<hr/>
<b>Cash outflow effect of the acquisition</b>	<b>11.0</b>	<b>30.3</b>

Secure Mail Services Limited earned a profit after taxation of £1.3 million in the 15 month period ended 30 June 2007 (year to 31 March 2006: £1.6 million), of which £0.6 million arose in the period from 1 April 2006 to 1 September 2006. The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 April 2006 to 1 September 2006, shown on the basis of the accounting policies of Secure Mail Services Limited prior to the acquisition, are as follows:

	£m
<b>Turnover</b>	<b>18.5</b>
Operating costs	(16.9)
	<hr/>
<b>Operating profit before exceptional items and goodwill amortisation</b>	<b>1.6</b>
Exceptional items – costs incurred in respect of the disposal of the company's shares	(0.8)
Goodwill amortisation	(0.1)
	<hr/>
<b>Operating profit</b>	<b>0.7</b>
Finance charges (net)	0.3
	<hr/>
<b>Profit on ordinary activities before taxation</b>	<b>1.0</b>
Tax on profit on ordinary activities	(0.4)
	<hr/>
<b>Profit for the financial period</b>	<b>0.6</b>

An amount of £5.8 million was charged to the group profit and loss account in the period ended 30 June 2007 in respect of costs incurred in acquiring the businesses, and restructuring and integrating them in the period from their respective dates of acquisition to 30 June 2007.

Subsidiaries acquired in the period ended 30 June 2007 contributed £33.0 million to the group's net operating cash flows, paid £4.7 million in respect of taxation and utilised £1.9 million for capital expenditure.

**Notes to the financial statements  
for the year ended 30 June 2008**

**13 Acquisition of subsidiary undertakings  
(continued)**

***Acquisition of Challenger Security Services (Admin) Limited***

On 14 December 2007 Secure Mail Services Limited, a wholly owned subsidiary of the company, purchased the whole of the issued share capital of Challenger Security Services (Admin) Limited for a total estimated consideration of £0.9 million. Goodwill arising on the acquisition has been taken to intangible fixed assets and is being written off over the directors' estimate of useful life, being 20 years.

The following table sets out the book values of the identifiable assets and liabilities of Challenger Security Services (Admin) Limited acquired and their provisional fair value to the group:

	Book value £000	Adjustments £000	Provisional fair value to group £000
<b>Current assets</b>			
Debtors	89	-	89
Cash	9	-	9
<b>Total assets</b>	<b>98</b>	<b>-</b>	<b>98</b>
<b>Creditors</b>			
Creditors	95	-	95
Taxation	2	-	2
<b>Total liabilities</b>	<b>97</b>	<b>-</b>	<b>97</b>
<b>Net assets</b>	<b>1</b>	<b>-</b>	<b>1</b>
Goodwill			905
			<b>906</b>
<b>Discharged by:</b>			
Cash			410
Deferred consideration			465
Costs incurred			31
<b>Cost of acquisition</b>			<b>906</b>

Deferred consideration is payable dependent on the revenue generated from the activities acquired in the three years ending 14 December 2010. This is estimated to amount to £465,000, and has been included in Creditors: amounts falling due within one year and Creditors: amounts falling due after more than one year according to the amounts estimated to be payable in each year.

The net cash flow effect of the acquisition was as follows:

	£000
Payments for the purchase of shares	410
Costs of acquisition settled in the year	31
Cash outflow on purchase of subsidiary	441
Cash at bank and in hand acquired	(9)
<b>Cash outflow effect of the acquisition</b>	<b>432</b>

**Notes to the financial statements  
for the year ended 30 June 2008**

**13 Acquisition of subsidiary undertakings  
(continued)**

Challenger Security Services (Admin) Limited earned a profit after taxation of £425 in the year ended 30 September 2007 (2006: £4,143). The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 October to 14 December 2007, shown on the basis of the accounting policies of Challenger Security Services (Admin) Limited prior to the acquisition, are as follows:

	£000
<b>Turnover</b>	<b>263</b>
Operating costs	(254)
<b>Profit on ordinary activities before taxation</b>	<b>9</b>
Tax on profit on ordinary activities	(2)
<b>Profit for the financial year</b>	<b>7</b>

**14 Debtors**

	2008 £m	Group 2007 £m	2008 £m	Company 2007 £m
Trade debtors	26.1	24.0	-	-
Amounts owed by subsidiary undertakings	-	-	0.6	0.5
Other debtors	0.5	0.2	1.3	-
Prepayments and accrued income	7.8	5.7	-	-
	<b>34.4</b>	<b>29.9</b>	<b>1.9</b>	<b>0.5</b>

**15 Creditors: amounts falling due within one year**

	2008 £m	Group 2007 £m	2008 £m	Company 2007 £m
Bank loans and overdrafts	6.4	3.3	-	-
Obligations under finance leases	0.2	0.3	-	-
Guaranteed loan notes	0.4	5.3	-	-
Trade creditors	3.2	3.5	-	-
Amounts owed to subsidiary undertakings	-	-	4.3	3.3
Corporation tax	3.5	5.6	-	-
Other taxes and social security costs	4.4	4.6	0.4	-
Other creditors	5.0	6.8	-	-
Accruals	12.4	10.3	0.2	0.2
Deferred income	32.9	33.2	-	-
	<b>68.4</b>	<b>72.9</b>	<b>4.9</b>	<b>3.5</b>

The guaranteed loan notes comprise guaranteed unsecured redeemable loan notes 2010 (2007: guaranteed unsecured redeemable loan notes 2008), on which interest is payable at LIBOR minus 0.125%. The notes are redeemable at the request of the noteholders.

Other creditors include an amount of £4.0 million (2007: £6.0 million) of deferred consideration in respect of the acquisition of Secure Mail Services Limited and £0.2 million of deferred consideration in respect of the acquisition of Challenger Security Services (Admin) Limited (see note 13).

**Notes to the financial statements  
for the year ended 30 June 2008**

**16 Creditors: amounts falling due after more than one year**

	2008 £m	Group 2007 £m	2008 £m	Company 2007 £m
<b>Borrowings and other creditors:</b>				
<b>Third party:</b>				
Bank loans not wholly repayable within five years	239.1	242.0	-	-
Obligations under finance leases	0.1	0.3	-	-
Deferred consideration (see note 13)	0.3	4.0	-	-
	<b>239.5</b>	<b>246.3</b>	<b>-</b>	<b>-</b>
<b>Shareholder related:</b>				
Investor loan notes	57.5	49.8	-	-
Interest accruals	7.4	6.3	-	-
	<b>64.9</b>	<b>56.1</b>	<b>-</b>	<b>-</b>
	<b>304.5</b>	<b>302.4</b>	<b>-</b>	<b>-</b>
<b>Non equity shareholdings:</b>				
<b>Shareholder related:</b>				
11% cumulative redeemable preference shares (see note 19)	158.0	158.0	158.0	158.0
Accrued preference dividends	33.2	14.2	33.2	14.2
	<b>191.2</b>	<b>172.2</b>	<b>191.2</b>	<b>172.2</b>
	<b>495.6</b>	<b>474.6</b>	<b>191.2</b>	<b>172.2</b>
	2008 £m	Group 2007 £m	2008 £m	Company 2007 £m
Third party	239.5	246.3	-	-
Shareholder related	256.1	228.3	191.2	172.2
	<b>495.6</b>	<b>474.6</b>	<b>191.2</b>	<b>172.2</b>

The bank loans at 30 June 2008 are the amount outstanding under a £225 million senior facilities agreement, expiring on 31 December 2015, and a £57.2 million mezzanine facility agreement, expiring on 30 June 2016. The carrying amount of the bank loans comprises:

	2008 £m	2007 £m
Senior facility	184.5	190.9
Mezzanine facility	57.2	57.2
Accrued interest	4.3	1.9
	<b>246.0</b>	<b>250.0</b>
Loan issue costs	(6.9)	(8.0)
	<b>239.1</b>	<b>242.0</b>

**Notes to the financial statements  
for the year ended 30 June 2008**

**16 Creditors: amounts falling due after more than one year  
(continued)**

£30.9 million (2007: £34.2 million) of the senior facility is repayable in semi-annual instalments over the period from 30 June 2008 to 30 June 2013. The balance of the senior facilities is repayable between 30 June 2014 and 31 December 2015. The amount outstanding under the mezzanine facility, together with accrued interest settled other than in cash, is repayable in full on the expiry date.

The carrying amount of the investor loan notes comprises:

	2008 £m	2007 £m
15.25% senior subordinated redeemable loan notes 2016	34.6	30.0
15.50% junior subordinated redeemable loan notes 2016	23.1	20.0
	<u>57.7</u>	<u>50.0</u>
Loan issue costs	(0.2)	(0.2)
	<u><b>57.5</b></u>	<u><b>49.8</b></u>

The senior and the junior loan notes are listed on the Channel Islands Stock Exchange. They are repayable in full on 4 September 2016, together with accrued interest.

The cumulative redeemable preference shares carry an entitlement to dividends at the rate of 11p per share per annum, compounded annually on the anniversary of their issue. The shares, together with accumulated dividends, are redeemable on the earlier of the sale or listing of the company and 1 October 2016. The company has the option to redeem the shares earlier.

**17 Financial instruments**

Short term debtors and creditors have been excluded from the following disclosures.

**(a) Interest rate risk profile of financial liabilities**

The interest rate risk profile of the group's financial liabilities at 30 June 2008, after taking account of the interest rate swaps used to manage the interest profile, was:

	Floating rate £m	Fixed rate £m	Total £m
At 30 June 2008:			
<b>Sterling debt</b>	<u><b>65.1</b></u>	<u><b>252.8</b></u>	<u><b>317.9</b></u>
At 30 June 2007	<u>59.6</u>	<u>255.9</u>	<u>315.5</u>

The effect of the group's interest rate swaps is to classify £187.3 million (2007: £199.0 million) of borrowings in the above table as fixed rate. The balance of the fixed rate borrowings comprise the investor loan notes, together with interest thereon, and finance leases.

**Notes to the financial statements  
for the year ended 30 June 2008**
**17 Financial instruments  
(continued)**
**(b) Maturity of financial liabilities**

The maturity profile of the group's financial liabilities is as follows:

	Bank loans, together with accrued interest £m	Investor loan notes, together with accrued interest £m	Finance leases £m	Guaranteed loan notes £m	Total £m
Between one and two years	5.8	-	0.1	-	5.9
Between two and five years	18.7	-	-	-	18.7
After five years	221.5	64.9	-	-	286.4
<b>Total payable after more than one year</b>	<b>246.0</b>	<b>64.9</b>	<b>0.1</b>	<b>-</b>	<b>311.0</b>
On demand or within one year	6.4	-	0.2	0.4	7.0
<b>Total</b>	<b>252.4</b>	<b>64.9</b>	<b>0.3</b>	<b>0.4</b>	<b>318.0</b>

The maturity profile of the group's financial liabilities at 30 June 2007 was as follows:

	Bank loans, together with accrued interest £m	Investor loan notes, together with accrued interest £m	Finance leases £m	Guaranteed loan notes £m	Total £m
Between one and two years	6.4	-	-	-	6.4
Between two and five years	17.4	-	0.3	-	17.7
After five years	226.2	56.3	-	-	282.5
<b>Total payable after more than one year</b>	<b>250.0</b>	<b>56.3</b>	<b>0.3</b>	<b>-</b>	<b>306.6</b>
On demand or within one year	3.3	-	0.3	5.3	8.9
<b>Total</b>	<b>253.3</b>	<b>56.3</b>	<b>0.6</b>	<b>5.3</b>	<b>315.5</b>

**(c) Fair values of financial assets and liabilities**

The group uses derivative financial instruments to reduce its exposure to interest rate movements, and does not hold or issue derivative financial instruments for speculative purposes. Derivative financial instruments are not included at fair value.

The fair value of the group's interest rate derivatives at 30 June 2008, calculated using market rates, was an asset of £1.6 million (2007: £3.5 million). The interest rate derivatives expire on 30 September 2009.

**Notes to the financial statements  
for the year ended 30 June 2008**

**17 Financial instruments  
(continued)**

**(d) Currency exposure**

The currency profile of the group's financial assets and liabilities, other than short term items such as trade and other debtors and trade and other creditors, was:

	2008 £m	2007 £m
Financial assets:		
Sterling	11.0	14.5
Euro	0.8	1.6
	<u>11.8</u>	<u>16.1</u>
Comprising:		
Cash at bank	<u>11.8</u>	<u>16.1</u>
Financial liabilities:		
Sterling	<u>(310.6)</u>	<u>(309.2)</u>
Comprising:		
Bank loans	(252.4)	(253.3)
Investor loan notes	(57.5)	(50.0)
Guaranteed loan notes	(0.4)	(5.3)
Finance leases	(0.3)	(0.6)
	<u>(310.6)</u>	<u>(309.2)</u>
<b>Net financial liabilities</b>	<b><u>(298.8)</u></b>	<b><u>(293.1)</u></b>

As the group is predominantly UK based, it does not have any material currency exposures.

**(e) Hedges**

As explained in the directors' report on page 5, the group's policy is to hedge its interest rate risk, but not its foreign currency risk. The group uses interest rate swaps to hedge its interest rate risk.

At 30 June 2008, the group had put in place interest rate swaps in respect of £187.3 million (2007: £199.0 million) of bank borrowings. The gain on these instruments at 30 June 2008 was £1.6 million (2007: £3.5 million).

**18 Provisions**

	Deferred taxation £m	Integration costs	Other provisions £m	Total £m
At 1 July 2007	0.3	0.1	0.7	1.1
Charged/(credited) to profit and loss account	(0.3)	0.3	-	-
<b>At 30 June 2008</b>	<b><u>-</u></b>	<b><u>0.4</u></b>	<b><u>0.7</u></b>	<b><u>1.1</u></b>

Deferred tax is provided at the expected tax rate of 28% as follows:

	2008 £m	2007 £m
Accelerated capital allowances	0.2	0.6
Other timing differences	(0.2)	(0.3)
	<u>-</u>	<u>0.3</u>

**Notes to the financial statements  
for the year ended 30 June 2008**

**18 Provisions**  
(continued)

At the balance sheet date, the group has unused tax losses of £1.1 million (2007: £0.1 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams in the companies concerned.

Integration costs and other provisions are expected to be utilised over the period to January 2026.

**19 Share capital**

<b>Authorised:</b>		2008		2007
	No (000)	£000	No (000)	£000
<b>Equity:</b>				
A ordinary shares of 10p each	5,250	525	5,250	525
B ordinary shares of 10p each	1,000	100	1,000	100
<b>Total equity</b>	<b>6,250</b>	<b>625</b>	<b>6,250</b>	<b>625</b>
<b>Non equity:</b>				
11% cumulative redeemable preference shares	158,003	158,003	158,003	158,003
	<b>164,253</b>	<b>158,628</b>	<b>164,253</b>	<b>158,628</b>
<b>Allotted, called up and fully paid:</b>		2008		2007
	No (000)	£000	No (000)	£000
<b>Equity:</b>				
A ordinary shares of 10p each	5,250	525	5,250	525
B ordinary shares of 10p each	1,000	100	939	94
<b>Total equity</b>	<b>6,250</b>	<b>625</b>	<b>6,189</b>	<b>619</b>
<b>Non equity:</b>				
11% cumulative redeemable preference shares	158,003	158,003	158,003	158,003
	<b>164,253</b>	<b>158,628</b>	<b>164,192</b>	<b>158,622</b>

The non equity shares are presented as a liability (see note 16) and accordingly are excluded from called up share capital in the balance sheet.

Shares were issued during the period as follows:

- 40,625 B ordinary shares of 10p each were issued on 31 July 2007 for a cash consideration of £40,625; and
- 20,833 B ordinary shares of 10p each were issued on 5 November 2007 for a cash consideration of £20,833.

The A and B ordinary shares rank pari passu in the event of a winding up and carry no right to fixed income. The A and B ordinary shares carry equal voting rights, and the preference shares carry no voting rights.

**Notes to the financial statements  
for the year ended 30 June 2008**

**20 Shareholders' funds**

	Equity share capital £m	Share premium £m	Own shares £m	Profit and loss account £m	Total £m
<b>Group:</b>					
On incorporation	-	-	-	-	-
Equity shares issued	0.6	5.6	-	-	6.2
Loss for the financial period	-	-	-	(36.6)	(36.6)
<b>At 30 June 2007</b>	<b>0.6</b>	<b>5.6</b>	<b>-</b>	<b>(36.6)</b>	<b>(30.4)</b>
Own shares purchased	-	-	(0.4)	-	(0.4)
Loss for the financial year	-	-	-	(39.8)	(39.8)
Exchange adjustments	-	-	-	0.3	0.3
<b>At 30 June 2008</b>	<b>0.6</b>	<b>5.6</b>	<b>(0.4)</b>	<b>(76.1)</b>	<b>(70.3)</b>
<b>Company:</b>					
On incorporation	-	-	-	-	-
Share issues	0.6	5.6	-	-	6.2
Loss for the financial period	-	-	-	(17.0)	(17.0)
	<b>0.6</b>	<b>5.6</b>	<b>-</b>	<b>(17.0)</b>	<b>(10.8)</b>
Loss for the financial year	-	-	-	(19.3)	(19.3)
<b>At 30 June 2008</b>	<b>0.6</b>	<b>5.6</b>	<b>-</b>	<b>(36.3)</b>	<b>(30.1)</b>

The own shares reserve arises in connection with the group's Employee Benefit Trust, a discretionary trust established to facilitate the operation of the group's long-term incentive scheme for senior management. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the company's shares, purchased by the trust from one of the company's directors, which had not vested unconditionally in employees at the balance sheet date.

**21 Reconciliation of operating profit to operating cash flows**

	2008 12 months £m	2007 10 months £m
Operating profit	13.2	6.7
Depreciation and other amounts written off tangible fixed assets	5.0	5.2
Goodwill amortisation	24.1	20.1
Profit on disposal of tangible fixed assets	-	(0.4)
Increase in debtors	(4.2)	(2.0)
Increase in creditors	0.6	0.1
Increase in other provisions	0.3	-
<b>Net cash inflow from operating activities</b>	<b>39.0</b>	<b>29.7</b>

**Notes to the financial statements  
for the year ended 30 June 2008**

**22 Analysis of net debt and reconciliation of net cash flow to movement in net debt**

	Cash at bank and in hand £m	Debt due within one year £m	Debt due after one year £m	Finance leases £m	Total net debt £m
At 1 July 2007	(16.1)	8.6	470.3	0.6	463.4
Cash flow	4.5	(7.2)	(3.3)	(0.3)	(6.2)
Non cash changes	(0.2)	5.4	28.1	-	33.1
<b>At 30 June 2008</b>	<b>(11.8)</b>	<b>6.8</b>	<b>495.2</b>	<b>0.3</b>	<b>490.5</b>

The non cash changes relate to accrued preference dividends, accrued investor loan notes and non-current bank interest, amortisation of finance costs, loan notes issued as part of the consideration for the acquisition of Secure Mail Services Limited and exchange adjustments.

**23 Significant non-cash transactions**

A proportion of the consideration for the acquisition of Secure Mail Services Limited during the current and previous years comprised loan notes. The consideration in the previous year also comprised shares and loan notes. Further details are given in note 13.

**24 Financial commitments**

	Group	
	2008 £m	2007 £m
<b>Capital expenditure:</b>		
Contracted but not provided for	1.5	-
<b>Annual commitments under operating leases are analysed as follows:</b>		
Land and buildings – leases which expire:		
Within one year	0.3	0.3
Between two and five years	1.7	1.6
After five years	1.7	1.9
	<b>3.7</b>	<b>3.8</b>
Other – leases which expire:		
Within one year	0.1	0.2
Between two and five years	0.3	0.5
After five years	-	-
	<b>0.4</b>	<b>0.7</b>

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

**25 Contingencies**

The group has entered into a bank guarantee facility in respect of property leases amounting to £1.0 million (2007: £1.0 million). At 30 June 2007 the group had also entered into a bank guarantee facility in respect of its performance under its licences to provide regulated mail services up to a maximum liability of £0.5 million. The requirement for such guarantees was withdrawn on 31 March 2008.

**Notes to the financial statements  
for the year ended 30 June 2008**

**25 Contingencies**  
(continued)

The company is party to a continuing guarantee and indemnity in respect of the senior and mezzanine facilities described in note 16.

No provisions are required or have been made in respect of these contingencies since, in the opinion of the directors, they are not expected to result in financial loss for the group.

**26 Pension arrangements**

The group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are in managed funds and are therefore held separately from the assets of the group.

The total cost charged to income of £0.3 million (10 months to 30 June 2007: £0.2 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes.

**27 Related party transactions**

During the year, amounts totalling £35,843 (10 months to 30 June 2007: £47,940) were paid to David Mitchell, on an arms length basis, in respect of consultancy services.

James Greenbury received the following amounts in respect of his share of the deferred consideration for the purchase of Secure Mail Services Limited referred to in note 13:

- £1.5 million guaranteed unsecured redeemable loan notes 2009, all of which were redeemed during the year; and
- £0.3 million guaranteed unsecured redeemable loan notes 2010.

The shares in the company referred to in note 20 were acquired from James Greenbury.

Amounts paid to Candover Services Limited in respect of directors' services are disclosed in note 4 as sums paid to third parties.

**28 Controlling party**

In the opinion of the directors, the company's controlling party at 30 June 2008 was funds controlled by Candover Partners Limited.

**29 Post balance sheet events**

On 1 September 2008 the company announced that it had acquired the In-Night and PX Worldwide Licensing operations of Business Direct Limited, a wholly owned subsidiary of Business Direct Group plc. The acquisition was effected by acquiring the trade and fixed assets of the operations from the Administrator of Business Direct Limited through a newly formed subsidiary, DX Business Direct Limited.

The consideration paid to the Administrator was £0.5 million. In addition, the group will be making further investments to purchase additional related assets and in working capital. In aggregate the total investment required is estimated at £4 million.