

AAP3 Limited
Annual report and financial statements
for the year ended 31 December 2011
Registered number 03444435



AAP3 Limited

for the year ended 31 December 2011

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AAP3 Limited

for the year ended 31 December 2011

Directors and advisors

Directors	Mr B J Boston Mr N J Daniels Mr M V Goodyear Mr R Jackson Mr C Nichols Mr J A O Donnell Mr R Welch (Appointed 1 April 2011)
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Company secretary	Mrs H Quinn
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Registered office	3 Benham Road Benham Campus Southampton Science Park Chilworth Southampton Hampshire SO16 7QJ
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Independent auditors	Nexa Smith & Williamson Statutory Auditors Imperial House 18-21 Kings Park Road Southampton SO15 2AT
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Bankers	Bank of Scotland 38 Threadneedle Street London EC2P 2EH
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Solicitors	Trethowans The Director General's House 15 Rockstone Place Southampton Hampshire SO15 2EP
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AAP3 Limited

Directors' Report for the year ended 31 December 2011

The directors present their annual report and the audited consolidated financial statements of the group for the year ended 31 December 2011

Principal activity

AAP3 is a global managed solutions group based around three core functional business areas

- Specialist recruitment services for the IT and related industries
- Engineering solutions
- Business solutions

The company is a limited company, domiciled and incorporated in the United Kingdom. The registered office is also the principal place of business with the address as set out on page 1. The company has subsidiaries in USA, Germany, Italy and France.

Review of business and future developments

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

	2011	2010	Change
	£	£	
Revenue	24,537,254	27,271,640	10%
Total operating profit/(loss) - excluding exceptional items	395,354	(266,046)	
Current assets as % of current liabilities	114%	106%	
Average number of employees	272	311	13%

The 2011 results overall have been disappointing showing a decline in overall revenue from 2010. The majority of this decline has been in the recruitment area of the business where competition from global recruitment companies, coupled with an uncertain economic backdrop has seen many clients unwilling to invest in new labour supplies. We did however take the opportunity to right size our business model by reducing operating expenditure and withdrawing from several high revenue, low margin contracts. As a result the group remained modestly profitable for the year.

Right sizing the business by consolidating all business operations and finance into a new shared services team has removed significant support headcount and overhead cost.

ISO accreditation has been maintained across the company outside of the US and we have gained partner accreditation with Microsoft, Cisco & IBM.

Our aim over the next 3 years remains consistent with previous reported plans in that AAP3 will continue to develop into a true business solutions company based on a single set of interlocking products & services underpinned by our recruitment heritage. The major R&D investment in 2011 has been to develop a series of mid-market products and services, as well as establishing key partnerships with industry leading blue chip OEM suppliers (IBM, Microsoft, Intel, Cisco). The launch for this new initiative is April 2012 and we are confident it should significantly contribute to revenue by the end of 2012.

Our recruitment business is being re-focused to ensure alignment with our company strategy and will remain a measured revenue & profit contributor to the business. We shall continue to leverage its accounts as sell up opportunities wherever possible. In addition we are looking at increased specialisation to leverage our increased brand awareness through our Southampton Football Club sponsorship.

Fiscally we are aiming over the next 3 years to grow our revenue organically by >15% per annum, with a net margin of 5-7%. We also remain committed to strategic growth through acquisition, although suitable target companies failed to materialize in 2011. The share capital restructuring has now been completed in anticipation of any fund raising initiatives to support this goal.

The US in the latter part of 2011 has been a beacon of success for the group, developing a very strong relationship with AT&T and Cisco. US contribution in 2011 was 19% of total revenue for the group, and we re-iterate the intention for the US to be contributing greater than 40% of the group's revenue & profit within the next 2 years. We have also revised our prediction that greater than 40% of the group's revenue will be generated outside of the UK. Our site location planning will focus in the coming year on a northern expansion strategy in the UK and an East Coast hub in the US.

AAP3 Limited

Directors' Report (continued) for the year ended 31 December 2011

Review of business and future developments (continued)

Our Academy program has four new college graduates & apprentices enrolled. Our CSR program has donated over £75,000 in the form of time, from 1 January 2011 to the signing of these accounts, to selected charities as well as offering practical support to local schools & the Saints foundation. I am also pleased to report that our US business has been nominated for the San Jose Bay Area a "Best Place to Work" award.

Principal risks and uncertainties

Risk management is a central part of any organization's strategic management. It is a process whereby organisations methodically address the risks attached to their activities with the goal of achieving sustained benefit within each activity and across the portfolio of activities.

At AAP3 we are very serious about addressing and monitoring risk in order to ensure we remain a successful business now and into the future.

Our main risks fall into four categories:

- 1 **Strategic** Our key risk is our customer concentration, this is part of our strategic plan to not have one customer over 20% of revenue, this is managed by continually growing our customer base outside of our current key clients and is reflective in our Research & Development to look at product offerings as well as Service solutions,
- 2 **Compliance** Our Key risk in this area is our geographical footprint, we engage with local experts and specialists to ensure we are compliant in each region,
- 3 **Financial** We manage our Financial risk in a variety of ways. One of our key risk areas is reliance on bank borrowing but this is managed by regular monitoring and ensuring that we do not exceed our credit line, and
- 4 **Operational** Our key risk in this area is data security, we review our process in this area and ensure that all data is secure by following a disaster and security recovery plan.

We have used the Institute of Risk Management guidelines to analyse our risks and have a policy that is regularly reviewed by our audit committee.

Research and development

Research and development activities for the group relate to the development of software and application solutions. During 2011 the activities undertaken by the group have not progressed to development stage and all costs have been expensed to the statement of comprehensive income.

Dividends

No dividends will be distributed for the year ended 31 December 2011 (2010: £nil).

Financial risk management

The profits for the year included a loss on foreign exchange of £54,528 (2010: loss £23,964) and this continues to be the largest area of financial risk to the group. The majority of transactions denominated in foreign currencies have natural hedging through contracts being negotiated in the currency bearing the costs. With the Euro weakened against Sterling this has contributed to the foreign exchange loss.

The group is also exposed to credit risk. The group has procedures in place that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual customer is subject to a limit, which is reviewed by management on a regular basis.

AAP3 Limited

Directors' Report (continued) for the year ended 31 December 2011

Charitable and political donations

The group donated £1,455 (2010: £8,234) to local and national charities. This was made up of donations to benevolent charities as follows:

		£
Free the Children	National	500
Red Nose	National	17
Live Life then Give Life	National	200
The Joe Glover Trust	Local	700
Meningitis UK	National	38
		<u>1,455</u>

The group made no political contributions during the period (2010: £nil)

Disabled employees and employee participation

The group gives full and careful consideration to applications made by disabled persons, having regard to their particular aptitudes and abilities. In the event of an employee becoming disabled, every effort is made to ensure that their employment within the group continues and that appropriate training is arranged where necessary. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be equal in opportunity to all other employees.

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings.

Policy and practice on payment of creditors

It is company policy to follow a standard on payment practice, in respect of its suppliers the company policy is:

- (a) to settle the terms of payment with those suppliers when agreeing the terms of each transaction,
- (b) to ensure that the suppliers are made aware of the terms of payment, and
- (c) to abide by the terms of payment.

Trade creditors at the year end represent 2 days of purchases (2010: 6 days)

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the company and of the group for that period and of the profit of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

AAP3 Limited

**Directors' Report (continued)
for the year ended 31 December 2011**

Statement of directors' responsibilities (continued)

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Statement of disclosure of information to auditors

In the case of each person who was a director at the time this report was approved

- (a) so far as the director is aware, there is no relevant audit information of which the group's auditors were unaware, and
- (b) that director has taken all the steps that the director ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the group's auditors were aware of that information.

Independent auditors

Nexa Smith & Williamson have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.



H Quinn
Secretary

27 - 6 - 2012

Date

AAP3 Limited

**Auditor's Report
for the year ended 31 December 2011**

Nexia Smith & Williamson

Independent auditor's report to the members of AAP3 Limited

We have audited the financial statements of AAP3 Limited for the year ended 31 December 2011 which comprise the Group Statement of Comprehensive Income, the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Cash Flows, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been properly prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.


Andrew Edmonds
Senior Statutory Auditor, for and on behalf of
Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants

27th June 2012

Imperial House
18-21 Kings Park Road
Southampton
SO15 2AT

AAP3 Limited

Consolidated statement of comprehensive income for the year ended 31 December 2011

	Notes	2011 £	2010 £
Revenue	3	24,537,254	27,271,640
Cost of sales		(19,768,226)	(21,838,087)
Gross profit		4,769,028	5,433,553
Administrative expenses		(4,426,487)	(5,857,962)
Operating profit/(loss)		342,541	(424,409)
Adjusted operating profit/(loss)		395,354	(266,046)
Share based payments	18	(52,813)	(158,363)
Operating profit/(loss) after share based payments		342,541	(424,409)
Finance income	5	-	45
Finance cost	6	(116,083)	(153,113)
Profit/(loss) before income tax		226,458	(577,477)
Income tax (expense)/income	9	(33,698)	128,722
Profit/(loss) for the year		192,760	(448,755)
Other comprehensive income			
Currency translation differences		(53,606)	(18,326)
Total comprehensive income/(expense) for the year		139,154	(467,081)

The results above relate to continuing activities

The notes on pages 11 to 27 are an integral part of these consolidated financial statements

The company has elected to take the exemption under section 408 of the Companies Act 2006 to not present the parent company statement of comprehensive income. The profit for the parent company for the year was £200,011 (2010: loss £621,872)

AAP3 Limited

Consolidated statement of financial position at 31 December 2011

	Notes	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
ASSETS					
Non-current assets					
Goodwill	10	522,430	1,222,430	522,430	1,222,430
Intangible assets	10	5,070	18,298	5,070	18,298
Property, plant and equipment	11	3,990	41,745	2,715	39,680
Investment in subsidiaries	12	-	-	32,203	320,468
Deferred income tax assets	15	20,141	18,815	20,141	16,815
		551,631	1,299,288	582,559	1,617,691
Current assets					
Trade and other receivables	13	4,880,195	4,904,867	4,938,430	5,196,827
Current income tax assets	13	-	44,597	-	102,399
Cash and cash equivalents		171,471	155,207	39,977	94,328
		5,051,666	5,104,671	4,978,407	5,393,554
Total assets		5,603,297	6,403,959	5,560,966	7,011,245
EQUITY AND LIABILITIES					
Equity attributable to owners of parent					
Called up share capital	17	9,065	8,183	9,065	8,183
Share premium		476,537	227,419	476,537	227,419
Shares to be issued		-	250,000	-	250,000
Other reserves		300	300	300	300
Translation reserves		(73,720)	(20,114)	-	-
Retained earnings		731,702	488,129	627,580	374,756
Total equity		1,143,884	951,917	1,113,482	860,658
Non-current liabilities					
Contingent deferred consideration	16	-	666,680	-	666,680
Trade and other payables	14	4,422,215	4,785,362	4,412,861	5,483,907
Current income tax liabilities	14	37,198	-	34,623	-
		4,459,413	4,785,362	4,447,484	5,483,907
Total liabilities		4,459,413	5,452,042	4,447,484	6,150,587
Total Equity and liabilities		5,603,297	6,403,959	5,560,966	7,011,245

The notes on pages 11 to 27 are an integral part of these consolidated financial statements

The financial statements on pages 7 to 27 were authorised for issue by the board of directors on 27/06/2012 and were signed on its behalf by

R Jackson
Director
AAP3 Limited
Registered number 03444435



AAP3 Limited

Consolidated statement of changes in equity for the year ended 31 December 2011

Group	Attributable to owners of the parent						Total
	Called up share capital	Share Premium	Shares to be issued	Capital redemption Reserve	Retained Earnings	Translation Reserve	
	£	£	£	£	£	£	£
Balance at 1 January 2010	8,044	167,363	-	300	776,521	(1,788)	950,440
Loss for the period	-	-	-	-	(448,755)	-	(448,755)
Other comprehensive income	-	-	-	-	-	(18,326)	(18,326)
Total comprehensive income	-	-	-	-	(448,755)	(18,326)	(467,081)
Proceeds from shares issued	139	60,056	-	-	-	-	60,195
Proceeds from shares to be issued	-	-	250,000	-	-	-	250,000
Share option charge	-	-	-	-	158,363	-	158,363
Balance at 1 January 2011	8,183	227,419	250,000	300	486,129	(20,114)	951,917
Profit for the period	-	-	-	-	192,760	-	192,760
Currency translation differences	-	-	-	-	-	(53,606)	(53,606)
Total comprehensive income	-	-	-	-	192,760	(53,606)	139,154
Proceeds from shares issued	200	249,800	(250,000)	-	-	-	-
Dilution of shares	682	(682)	-	-	-	-	-
Share option charge	-	-	-	-	52,813	-	52,813
Balance as at 31 December 2011	9,065	476,537	-	300	731,702	(73,720)	1,143,884

Company

	Called up share capital	Share Premium	Shares to be issued	Capital Redemption Reserve	Retained Earnings	Total
	£	£	£	£	£	£
Balance as at 1 January 2010	8,044	167,363	-	300	838,265	1,013,972
Proceeds from shares issued	139	60,056	-	-	-	60,195
Proceeds from shares to be issued	-	-	250,000	-	-	250,000
Share option charge	-	-	-	-	158,363	158,363
Balance as at 1 January 2011	8,183	227,419	250,000	300	374,756	860,658
Profit for the period	-	-	-	-	200,011	200,011
Proceeds from shares issued	200	249,800	(250,000)	-	-	-
Dilution of shares	682	(682)	-	-	-	-
Share option charge	-	-	-	-	52,813	52,813
Balance as at 31 December 2011	9,065	476,537	-	300	627,580	1,113,482

The notes on pages 11 to 27 are an integral part of these consolidated financial statements

AAP3 Limited

Consolidated statement of cash flows for the year ended 31 December 2011

	Notes	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Cash flows from operating activities					
Cash generated from operations	19	105,875	990,808	(88,343)	928,505
Interest paid		(82,764)	(121,333)	(82,764)	(86,960)
Income tax received/(paid)		9,550	(234,546)	120,598	(151,622)
Net cash generated from operating activities		32,661	634,927	(50,509)	689,923
Cash flows from investing activities					
Purchases of intangible assets		(10,138)	(36,596)	(10,138)	(36,596)
Purchase of property, plant and equipment		(7,981)	(83,943)	(5,434)	(79,816)
Proceeds from property, plant and equipment disposal		11,730	15,351	11,730	15,351
Interest Received		-	45	-	21
Payment of contingent deferred consideration		-	(1,000,000)	-	(1,000,000)
Net cash used in investing activities		(6,389)	(1,105,143)	(3,842)	(1,101,040)
Cash flows from financing activities					
Proceeds for issue of ordinary shares		-	60,195	-	60,195
Proceeds for ordinary shares to be issued		-	250,000	-	250,000
Net cash used in financing activities		-	310,195	-	310,195
Net increase/(decrease) in cash and cash equivalents		28,272	(160,021)	(54,351)	(100,922)
Cash, cash equivalents and bank overdrafts at the beginning of the year		155,207	333,508	94,328	195,250
Exchange losses on cash and cash equivalents		(10,008)	(18,278)	-	-
Cash, cash equivalents at the end of the year		171,471	155,207	39,977	94,328

The notes on pages 11 to 27 are an integral part of these consolidated financial statements

AAP3 Limited

Notes to the financial statements for the year ended 31 December 2011

1 Statement of accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRSs as endorsed by the EU), IFRS interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a going concern basis under the historic cost convention.

Adoption of new and revised standards

The following standards and amendments to existing standards were mandatory for the financial year starting 1 January 2011:

- IAS 24 - 'Related Party Disclosures'
- IFRS 7 - 'Disclosures - Transfers of Financial Assets'

The above listed standards and a number of other amendments to existing standards and interpretations were also effective for the current period, the adoption of which did not have a material impact on the group's annual results.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not effective (and in some cases had not yet been endorsed by the European Union):

- IFRS 1 (Amended) - 'Removal of fixed dates for first time adopters'
- IFRS 9 - 'Financial Instruments'
- IAS 12 (Amended) - 'Deferred Tax Recovery of Underlying Assets'
- IFRS 10 - 'Consolidated Financial Statements'
- IAS 27 - 'Separate Financial Statements'
- IAS 1 (Amended) - 'Presentation of Items of Other Comprehensive Income'
- IAS 32 (Amended) - 'Financial Instruments - Presentation'
- Improvements to IFRSs (May 2010)

The directors do not expect that the adoption of the other standards and interpretations listed above will have a material impact on the financial statements of the group in future periods.

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements incorporate the accounts of AAP3 Limited and its subsidiary undertakings (all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights). Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable intangible assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Revenue

Revenue, which excludes value added tax, represents net amounts invoiced during the year adjusted for accrued and deferred income where applicable. Revenue generated from contracts of services is recognised under the percentage-of-completion method using contractual rates. For recruitment contracts the revenue is recognised on a time and material basis and for permanent fees this is recognised when the candidates start their placement.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

1 Statement of accounting policies (continued)

Property, plant and equipment

The cost of property, plant and equipment is their purchase cost together with any incidental costs of acquisition. Depreciation is provided on all property, plant and equipment, calculated to write off the cost of each asset evenly over its expected useful life. The principal annual rates used are as follows:

Fixtures & fittings	- 50% straight line
Computers and equipment	- 50% straight line
Vehicles	- 50% straight line

The assets' residual values and useful lives are reviewed and adjusted if appropriate at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see below).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Intangible assets

(a) Software

The cost of intangibles is their purchase cost together with any incidental costs of acquisition. Amortisation is provided on all intangibles, calculated to write off the cost of each asset evenly over its expected useful life. The principal annual rates used are as follows:

Computer equipment - software	- 50% straight line
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(b) Goodwill

Goodwill represents the difference between the cost of an acquisition over the fair value of the group's share of net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to which the goodwill arose identified according to operating segment.

Where the consideration paid exceeds the fair value of the assets and liabilities acquired, goodwill is measured at cost less any accumulated impairment losses and is reviewed for impairment annually. Impairment is determined by comparing the recoverable amount of the cash-generating unit to the carrying value of the goodwill. The recoverable amount is the greater of an asset's value in use and its fair value less costs to sell. Value in use is calculated by discounting the future cash flows expected to be derived from the asset at the group's cost of capital. Where the recoverable amount is less than the carrying value, the goodwill is considered impaired and is written down through the income statement to its recoverable amount.

Intangible assets (continued)

(c) Contracted customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship.

Impairment

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

1 Statement of accounting policies (continued)

Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in GB pound sterling, which is the company's functional and the group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the administrative expenses. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet,
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions), and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Trade receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less, they are classified as current assets; if not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for impairment.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and short-term deposits. For the purpose of the cash flow statement, cash and cash equivalents are shown net of outstanding bank overdrafts.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less; if not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently at amortised cost using the effective interest method, less provision for impairment.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

1 Statement of accounting policies (continued)

Share-based payments

The group operates an Enterprise Management Incentives (EMI) share option scheme, under which the entity receives services from employees as consideration for equity instruments (options) of the group. The fair value of the employee services received in exchange for the grant of the options is recognised in the income statement as an employee expense. The fair value is determined at the time of issue using the Black-Scholes option pricing model and is recognised over the vesting period. At each balance sheet date, the group reassesses its estimate of the number of options expected to vest and any impact of this revision is recognised in profit or loss so that the total expense reflects the revised estimate.

Research and development

Internal research costs are charged against income as incurred. Internal development costs are capitalised as intangible assets only when there is an identifiable asset that can be completed and that will generate probable future economic benefits and when the cost of such an asset can be measured reliably. The group does not currently have any such internal development costs that qualify for capitalisation as intangible assets. Internal development costs are therefore charged against income as incurred since the criteria for their recognition as an asset are not met.

Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and branches operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Pension costs

The pension costs charged in the financial statements represent the contributions payable by the group during the year to a defined contribution pension scheme.

Critical accounting estimates and judgements

The preparation of financial statements under IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgement and to make estimates in the process of applying the group's accounting policies. The estimate and assumption that has a significant risk of causing material adjustment to the carrying amount of assets and liabilities within the next financial year is addressed below.

Revenue

Revenue is recognised on service contracts on the basis of percentage completion. Judgement is required when assessing how complete a contract is. This is done on the basis of pre-agreed rates with the customer and time incurred by employees.

Goodwill

The goodwill has been calculated as the difference between the purchase consideration and the fair value of the net assets acquired.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

1 Statement of accounting policies (continued)

Critical accounting estimates and judgements (continued)

Impairment

In determining the appropriateness of the carrying value of goodwill, an annual impairment review is carried out. The asset is impaired if the carrying value of the asset exceeds its recoverable amount. When assessing the recoverable amount of the asset, which is the higher of the asset's fair value less costs to sell and the value in use, estimation is required. The value in use calculation requires the directors to group the assets at the lowest levels for which there are separately identifiable cash flows (cash-generating units), estimate the future cash flows expected to arise from them and a suitable discount rate in order to calculate their present value. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Share based payments

In determining the fair value of equity settled share based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Group's future dividend policy, employee turnover, the timing with which options will be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share based payments.

2 Financial risk management

Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the group's financial performance. Given the size of the group, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board are implemented by the group's finance department.

(a) Market risk

The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Euro and the UK pound. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

(b) Credit risk

Trade debtors are managed in respect of credit and cash flow risk by policies concerning the credit offered to customers and the regular monitoring of amounts outstanding for both time and credit limits.

(c) Liquidity risk

Group finance monitors the group's liquidity requirements to ensure it has sufficient cash to meet all operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the group does not breach borrowing limits or covenants on any of its borrowing facilities.

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

3 Revenue - group

An analysis of the Group's revenue is as follows

	2011 £	2010 £
Recruitment business unit	7,934,249	10,337,682
Engineering business unit	7,979,478	6,650,128
Business solutions unit	8,623,527	10,283,830
	24,537,254	27,271,640

4 Employee information and directors' emoluments

The average monthly number of persons (including directors) employed by the group during the year were as follows

	Group 2011 Number	Group 2010 Number	Company 2011 Number	Company 2010 Number
Administrative staff	27	18	24	14
Management staff	32	34	29	31
Production/sales staff	213	259	139	172
	272	311	192	217

The aggregate payroll costs of these persons were as follows

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Wages and salaries	10,817,200	12,350,864	6,344,310	7,772,505
Social Security Costs	1,108,717	1,258,978	670,827	792,711
Pension costs	43,112	64,888	-	1,035
	11,969,029	13,674,730	7,015,137	8,566,251

Emoluments payable to the directors are as follows

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Aggregate emoluments	329,429	491,648	329,429	491,648

No directors received pension contributions during the year (2010: 0)

The highest paid director received the following remuneration

	2011 £	2010 £
Aggregate emoluments	134,712	280,318

Key management compensation

Key management includes directors (executive and non-executive), the Company Secretary and the Executive Team. The compensation paid or payable to key management for employee services is shown below

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Salaries and other short-term employee benefits	877,776	1,050,514	877,776	1,050,514
Share option charge	34,355	137,345	34,355	137,345
	912,131	1,187,859	912,131	1,187,859

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

5 Finance income - Group

	2011	2010
	£	£
Bank interest receivable	-	45

6 Finance cost - Group

	2011	2010
	£	£
Bank interest payable	116,083	153,113

7 Expenses by nature - Group

	2011	2010
	£	£
Employee benefit expense (note 4)	11,969,029	13,674,730
Depreciation	45,747	125,235
Amortisation	23,367	490,809
Operating lease payments	223,483	399,581
Administrative expenses	11,933,107	13,005,694
Total	24,194,713	27,696,049

8 Auditor remuneration

During the year the group (including its overseas subsidiaries) obtained the following services from the company's auditors and its associates

Group	2011	2010
	£	£
Fees payable to company's auditors for the audit of the parent company and consolidated financial statements	12,700	12,700
Fees payable to the company's auditors and its associates for other services		
1. Other Services	15,193	10,390
2. Tax services	2,250	2,250

9 Income tax expense - Group

Analysis of tax charge in the year

	2011	2010
	£	£
UK corporation tax		
Current tax on income for the period	14,018	-
Adjustments in respect of previous years	2,406	(87,124)
Foreign Tax		
Current tax on income for the period	58,376	95,430
Adjustments in respect of previous years	(37,776)	(2,512)
Current tax expense	37,024	5,794
Deferred tax expense (note 15)	(3,326)	(134,516)
Tax on profit/(loss) on ordinary activities	33,698	(128,722)

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

9 Income tax expense - Group (continued)

Factors affecting tax charge for the period

	2011 £	2010 £
Profit/(loss) on ordinary activities before tax	226,458	(577,477)
Tax calculated at standard rate of UK corporation tax of 26.49% (2010: 28%)	59,998	(161,894)
Effects of		
Expenses not deductible for tax purposes	22,578	119,699
Enhanced R&D relief	(66,366)	(20,453)
Origination and reversal of temporary differences	-	3,476
Effect of tax rate change on opening deferred tax balances	-	752
Transfer pricing adjustments	3,085	-
Marginal relief	(2,908)	-
Adjustment for prior years	(35,370)	(87,124)
Adjustment for prior years - Deferred tax	(3,747)	(8,822)
Rate adjustment to deferred tax	1,589	-
Difference between foreign and UK rates	54,839	25,444
Tax Charge	33,698	(128,722)

Changes in future corporation tax rates

The Finance bill 2012 has included legislation to reduce the main rate of corporation tax to 24% from 1 April 2012. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

10 Intangible assets

Group	Goodwill £	Other Intangibles £	Computer Software £	Total £
Cost				
At 1 January 2010	1,224,942	739,580	55,688	2,020,210
Additions	-	-	10,139	10,139
Disposals	-	-	(210)	(210)
Lapsed deferred consideration	(700,000)	-	-	(700,000)
At 31 December 2011	524,942	739,580	65,617	1,330,139
Accumulated amortisation				
At 1 January 2010	2,512	739,580	37,390	779,482
Charge for the year	-	-	23,367	23,367
Disposals	-	-	(210)	(210)
At 31 December 2011	2,512	739,580	60,547	802,639
Net book value				
At 31 December 2011	522,430	-	5,070	527,500
At 31 December 2010	1,222,430	-	18,298	1,240,728

Further detail concerning goodwill is given in note 23.

Amortisation expense of £23,367 (2010: £490,809) has been charged in net operating expenses.

AAP3 Limited

Notes to the financial statements (continued) **for the year ended 31 December 2011**

10 Intangible assets (continued)

Company	Goodwill	Other	Computer	Total
	£	Intangibles	Software	£
		£	£	
Cost				
At 1 January 2010	1,222,430	600,405	54,298	1,877,133
Additions	-	-	10,139	10,139
Disposals	-	-	(210)	(210)
Lapsed deferred consideration	(700,000)	-	-	(700,000)
At 31 December 2011	522,430	600,405	64,227	1,187,062
Accumulated amortisation				
At 1 January 2010	-	600,405	36,000	636,405
Charge for the year	-	-	23,367	23,367
Disposals	-	-	(210)	(210)
At 31 December 2011	-	600,405	59,157	659,562
Net book value				
At 31 December 2011	522,430	-	5,070	527,500
At 31 December 2010	1,222,430	-	18,298	1,240,728

11 Property, plant and equipment

Group	Vehicles	Fixtures &	Computer	Total
	£	Fittings	Equipment	£
		£	£	
Cost				
At 1 January 2010	64,375	99,283	145,758	309,416
Additions	-	-	7,981	7,981
Disposals	(29,270)	-	(13,829)	(43,099)
Exchange movement	-	-	1,466	1,466
At 31 December 2011	35,105	99,283	141,376	275,764
Accumulated depreciation				
At 1 January 2010	64,375	86,606	116,690	267,671
Charge for the year	-	12,677	33,070	45,747
Disposals	(29,270)	-	(13,828)	(43,098)
Exchange movement	-	-	1,454	1,454
At 31 December 2011	35,105	99,283	137,386	271,774
Net book value				
At 31 December 2011	-	-	3,990	3,990
At 31 December 2010	-	12,677	29,068	41,745

Depreciation expense of £45 747 (2010 £125 235) has been charged in net operating expenses

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

11 Property, plant and equipment (continued)

Company	Vehicles £	Fixtures & Fittings £	Computer Equipment £	Total £
Cost				
At 1 January 2010	29,270	91,043	135,008	255,321
Additions	-	-	5,432	5,432
Disposals	(29,270)	-	(13,829)	(43,099)
At 31 December 2011	-	91,043	126,611	217,654
Accumulated depreciation				
At 1 January 2010	29,270	78,366	108,005	215,641
Charge for the year	-	12,677	29,719	42,396
Disposals	(29,270)	-	(13,828)	(43,098)
At 31 December 2011	-	91,043	123,896	214,939
Net book value				
At 31 December 2011	-	-	2,715	2,715
At 31 December 2010	-	12,677	27,003	39,680

12 Investment in subsidiaries - Company

	Share in group undertakings £
Cost	
At 1 January 2011	320,468
Additions	-
Less Dissolution of Preferred International Ltd	(288,265)
At 31 December 2011	32,203

The following were subsidiaries of the company as at 31 December 2011 and were wholly owned

Name	Country of incorporation	Class of Shares	Nature of Business
AAP3 Inc	United States of America	Ordinary	IT Managed Services
AAP3 Srl	Italy	Ordinary	IT Managed Services
AAP3 Sarl	France	Ordinary	IT Managed Services
AAP3 GmbH	Germany	Ordinary	IT Managed Services

	Aggregate capital and reserves £	Loss for the year £
AAP3 Inc	(184,454)	(62,049)
AAP3 Srl	41,978	8,100
AAP3 Sarl	129,812	43,097
AAP3 GmbH	91,432	3,602

13 Trade and other receivables

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Trade receivables	3,705,838	3,705,307	3,323,721	3,362,830
Amounts owed by group undertakings	-	-	783,552	906,868
Other debtors	20,991	22,275	15,342	15,858
Prepayments and accrued income	1,153,366	1,177,285	815,815	911,271
	4,880,195	4,904,867	4,938,430	5,196,827
Current income tax assets	-	44,597	-	102,399

The book values approximate the fair values of each class of trade and other receivables

The amounts owed by group undertakings are unsecured and have no fixed date of repayment.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

13 Trade and other receivables (continued)

Group

As of 31 December 2011, trade receivables of £3,705,838 (2010 £3,705,307) were fully performing

As of 31 December 2011, trade receivables of £957 (2010 £26,108) were past due but not impaired. These relate to a number of independent customers for whom there is no recent default history. The ageing analysis of these trade receivables is as follows:

Group	2011 £	2010 £
Up to 30 days	1,883,441	2,603,266
30 to 60 days	1,446,891	928,812
60 to 90 days	382,927	147,121
More than 90 days	(7,421)	26,108
	3,705,838	3,705,307

Dunning 2011 no group and other trade receivables were impaired and written off (2010 £nil). There was no provision as of 31 December 2011 (2010 £nil).

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The group does not hold any collateral as security.

The carrying amounts of the group's trade and other receivables are denominated in the following currencies:

Group	£	£
UK pound	3,231,986	3,239,068
Euro	803,258	869,155
US dollar	844,953	796,644
	4,880,195	4,904,867

Trade group and other receivables and cash and cash equivalents constitute the financial assets in the category Loans and receivables as defined in IAS 39.

Company

As of 31 December 2011, trade receivables of £3,323,721 (2010 £3,362,830) were fully performing.

As of 31 December 2011, trade receivables of £nil (2010 £13,259) were past due but not impaired.

Company	2011 £	2010 £
Up to 30 days	1,684,965	2,337,703
30 to 60 days	1,282,076	869,586
60 to 90 days	365,058	142,282
More than 90 days	(8,378)	13,259
	3,323,721	3,362,830

Dunning 2011 no trade receivables were impaired and provided for (2010 £nil). There was no provision as of 31 December 2011 (2010 £nil).

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The group does not hold any collateral as security.

Company	2011 £	2010 £
UK pound	4,015,538	4,145,936
Euro	803,258	869,155
US dollar	119,636	181,736
	4,938,430	5,196,827

Trade and other receivables and cash and cash equivalents constitute the financial assets in the category Loans and receivables as defined in IAS 39.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

14 Trade and other payables

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Trade creditors	90,810	369,652	71,267	345,627
Other taxes and social security costs	223,730	376,417	188,408	253,278
VAT	351,784	350,455	357,383	355,844
Amounts due to subsidiary undertakings	-	-	280,746	980,918
Other creditors	83,925	148,836	61,544	150,258
Invoice discounting	2,311,685	2,127,528	2,311,685	2,127,528
Accruals and deferred costs	1,360,281	1,412,474	1,143,828	1,270,454
Total trade and other payables	4,422,215	4,785,362	4,412,861	5,483,907
Current income tax liabilities	37,198	-	34,623	-

The book values approximate the fair values of each class of trade and other receivables

There is a fixed and floating charge over the assets of the company in respect of the invoice discounting balance of £2,311,685 (2010 £2,127,528). The invoice discounting balance is secured over the book debts value but the control over the debts remains with the company.

The amounts owed to subsidiary undertakings are unsecured and have no fixed date of repayment.

15 Deferred income tax

The analysis of the deferred tax liability is as follows

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
At 1 January 2011	(16,815)	117,701	(16,815)	(12,221)
Income statement charge (note 9)	(3,326)	(134,516)	(3,326)	(4,594)
At 31 December 2011	(20,141)	(16,815)	(20,141)	(16,815)

The following are the major deferred income tax balances recognised

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Capital allowances in excess of depreciation	(20,562)	(15,465)	(20,562)	(15,465)
Short term timing differences	421	(1,350)	421	(1,350)
Acquisition of subsidiary	-	-	-	-
Total	(20,141)	(16,815)	(20,141)	(16,815)

In 2010 the group did not recognise deferred income taxes assets of £10,688 in respect of losses amounting to £39,585 that could have been carried forward against future taxable income.

16 Non current liabilities

Group	2011 £	2010 £
Contingent deferred consideration	-	666,680

The contingent deferred consideration recognised by the group as non current liability in the prior year is the final payment as part of the purchase consideration on the acquisition of Preferred International Limited. During 2011 unwinding interest of £33,320 (2010 £31,780) has been charged to the income statement.

The deferred consideration was entirely contingent of delivering certain targets as defined in the purchase agreement.

In 2011 the performance target regarding the acquisition of Preferred International Limited were not met, therefore the £700,000 lapsed and was credited against the carrying value of goodwill.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

17 Share capital - Group and company

Authorised share capital

	2011 £	2010 £
Ordinary shares 10p each	-	8,971
Ordinary shares 0.04p each	12,000	-

Allotted fully paid

	2011 Number	2011 £	2010 Number	2010 £
Ordinary shares 10p each	-	-	81,830	8,183
Ordinary shares 0.04p each	22,663,698	9,065	-	-

The Share capital value increased by £200 following the conversion of the "Shares to be issued" reserve in the 2010 accounts and the related investment in December 2010 of £250,000. The 81,830 shares in issue as at 31st December 2010 were subdivided and diluted this year into 22,663,698 shares of 0.04p. A subsequent 500,000 shares were then allotted in respect of the December 2010 investment.

18 Share based payments

EMI Share options scheme

An EMI share option scheme was introduced on 31 December 2009. Under this scheme the remuneration committee can grant options over shares in the company to employees of the company. Options granted under the EMI share option scheme vest when certain criteria have been achieved. Options are granted for ten years at a fixed exercise price. Awards under the scheme are at the discretion of the directors. Details of the options granted under the scheme are as follows:

Grant date	EMI £0.10 share option 31/12/2009	EMI £1 share option 31/12/2009
Share price at grant date	76.43	76.43
Exercise price	0.10	1.00
Number of employees	3	8
Shares under option	359	5,042
Exercise year	10 years	10 years
Expected volatility	33.50%	33.50%
Risk free rate	4.20%	4.20%
Fair value per option	76.43	76.43

The fair value of the share options granted was £518,285 and this cost is being charged to the consolidated statement of income over the vesting period. The charge in the financial statements for the year ended 31 December 2011 is £52,813 (2010: £158,363).

A reconciliation of option movement is shown below:

	EMI £0.10 share option 2011		EMI £1 share option 2011	
	Number	Exercise Price £	Number	Exercise Price £
Outstanding at start of year	359	0.10	4,892	1
Granted	-	-	-	-
Exercised	-	-	-	-
Lapsed	-	-	450	-
Outstanding at 31 December 2011	359	0.10	4,442	1
Exercisable at 31 December 2011	359	0.10	3,210	1

The fair value of options granted during the period was determined using the Black-Scholes valuation model. The significant inputs into the model were the share price at the grant date (£76.43), exercise price (£0.10 and £1), volatility (33.50%), an expected option life of 10 years, and an annual risk-free interest rate of 4.20%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 4 years.

AAP3 Limited

Notes to the financial statements (continued) for the year ended 31 December 2011

18 Share based payments (continued)

Un-approved Share options scheme

The Un-approved share option scheme was introduced on 31 December 2009. Under this scheme the remuneration committee can grant options over shares in the company to employees of the company. Options granted under the un-approved share option scheme vest when certain criteria have been achieved. Options are granted for ten years at a fixed exercise price. Awards under the scheme are at the discretion of the directors.

Details of the options granted under the scheme are as follows:

Grant date	31/12/2009
Share price at grant date	78.43
Exercise price	0.10
Number of employees	5
Shares under option	1,654
Exercise year	10 years
Expected volatility	33.50%
Risk free rate	4.20%
Fair value per option	76.43

The fair value of the share options granted was £126,415 and this cost is being charged to the consolidated statement of income over the vesting period of the option. The charge in the financial statements for the year ended 31 December 2011 is £nil.

A reconciliation of option movement is shown below:

	2011	Exercise Price
	Number	£
Outstanding at start of year	755	1
Granted	-	1
Exercised	-	1
Lapsed	-	1
Outstanding at 31 December 2011	755	1
Exercisable at 31 December 2011	755	1

The fair value per options granted during the period was determined using the Black-Scholes valuation model. The significant inputs into the model were the share price at the grant date (£78.43), exercise price, (£1), volatility (33.50%), an expected option life of 10 years, and an annual risk-free interest rate of 4.20%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last 4 years.

19 Cash flow from operating activities

Reconciliation of operating profit/(loss) to net cash inflow from operating activities

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Profit before income tax	226,458	(577,522)	213,108	(713,590)
Adjustments for:				
Depreciation (note 11)	45,747	124,451	42,396	100,310
Amortisation (note 10)	23,367	491,412	23,367	403,986
Share options charge	52,813	158,363	52,813	158,363
Profit on disposal of property, plant & equipment	(11,730)	(11,881)	(11,730)	(11,881)
Finance income	-	(45)	-	(21)
Finance Cost	116,083	153,113	101,272	118,740
Decrease/(Increase) in trade receivables	18,294	(815,450)	258,398	(436,734)
(Decrease)/Increase in trade payables	(363,157)	1,468,385	(767,987)	1,309,332
Cash generated from operations	105,875	990,806	(88,343)	928,505

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Notes to the financial statements (continued) for the year ended 31 December 2011

20 Operating lease commitments - minimum lease payments - Group

The future aggregate minimum lease payments under non-cancellable operating leases are as follows

	2011 Property £	2010 Property £
Commitments under non-cancellable operating lease expiring		
Within one year	191,811	226,852
Later than one year and less than five years	605,885	610,754
Later than five years	379,134	528,489
Total	1,176,630	1,366,095

21 Related party disclosures

The following transactions were carried out with related parties

Group

	2011 £	2010 £
Purchases of services from key management personnel	1,281	6,476

During the year, the group made purchases totalling £1,281 from EEFS Solutions Limited, a company in which the EVP & Director of Shared Services, Hayley Quinn, is Company Secretary and shareholder

Company

	2011 £	2010 £
Sale of services to subsidiaries	245,409	286,696
Purchase of services from subsidiaries	1,333,040	1,548,781
Purchases of services from key management personnel	1,281	6,476
Loans to subsidiaries	783,552	866,999
Loans from subsidiaries	280,746	153,404
Trade receivables from subsidiaries	-	39,869
Trade payables to subsidiaries	-	827,514

All related party transactions have been performed at arms length with management charges and revenue charges defined in Transfer pricing agreements with each of the entities

22 Financial risk management - Group and Company

The Group's and Company's financial instruments comprise cash and cash equivalents and such items such as trade payables and trade receivables which arise directly from its operations. The main purpose of these financial instruments is to ensure that the Group and Company have sufficient funds to continue to operate.

The Group's and Company's operations expose it to a variety of financial risks that include the effects of the changes in credit risk, interest risk and market risk. The Group and Company have in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group and Company by monitoring levels of credit and interest rate and market risks. The policies are set by the board and monitored by the finance department.

Credit risk

The Group and Company have implemented policies that require appropriate credit checks on potential customers before sales are made to the including the review of credit limited with existing customers. The amount of exposure to any one party is reviewed by the finance department.

Credit risk refers to the risk that a counter-party will default on its contracted obligations resulting in financial loss to the Group. The Group and Company have adopted a policy of only dealing with creditworthy counter-parties as a means of mitigating the risk of financial loss of defaults.

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Notes to the financial statements (continued) for the year ended 31 December 2011

22 Financial risk management - Group and Company (continued)

The carrying amount of financial assets recorded in the financial statements represents the Group's maximum exposure to credit risk. The maximum credit exposure to credit risk at the reporting date was:

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Cash and cash equivalents	171,471	155,207	39,977	94,328
Amounts owed from group undertakings	-	-	783,552	908,868
Trade receivables	3,705,838	3,705,307	3,323,721	3,362,830
	3,877,309	3,860,514	4,147,250	4,364,026

Interest rate risk

The Group and Company have interest bearing liabilities. These liabilities include only the invoice discounting balance and the interest is charged at 2% above the base rate. This interest is fixed by the current agreement until February 2013 with any variations wholly dependant on the Bank of England base rate. As at 31 December 2011 if the base rate had increased or decreased by 0.25%, post tax profit would have increased or decreased by £5,436 (2010: £3,283).

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facility. The Group's liquidity management policy involves projecting cash flows considering the level of liquid assets necessary to meet these, monitoring balance sheet ratios against internal and external regulatory requirements.

The tables below analyse the Group's financial liabilities relevant maturity groupings based on the remaining period at the financial statements date to the contractual maturity date.

	Less than 6 months £	Between 6 & 12 months £	Between 12 & 24 months £	Over 24 months £
Group at 31 December 2011				
Trade creditors	90,810	-	-	-
Invoice discounting	2,311,685	-	-	-
Accruals and deferred costs	1,360,281	-	-	-
Contingent deferred consideration	-	-	-	-
	3,762,776	-	-	-
Less imputed interest	-	-	-	-
Carrying value	3,762,776	-	-	-

	Less than 6 months £	Between 6 & 12 months £	Between 12 & 24 months £	Over 24 months £
Group at 31 December 2010				
Trade creditors	369,652	-	-	-
Invoice discounting	2,127,528	-	-	-
Accruals and deferred costs	1,412,474	-	-	-
Contingent deferred consideration	-	-	700,000	-
	3,909,654	-	700,000	-
Less imputed interest	-	-	(33,320)	-
Carrying value	3,909,654	-	666,680	-

Market Risk

The Group operates within Europe and the United States and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

For the year ended 31 December 2011, with the primary trading currencies of the Euro weakening by 3% but the US dollar strengthening by 1%, the group experienced a net exchange loss of £54,528 (2010: £24,152).

Should the US dollar have weakened by the same margin as the Euro during FY10 with all other areas remaining constant, the Group would have experienced an additional exchange loss of £31,000 (2010: £57,000), mainly as a result of foreign exchange losses on translation of US dollar denominated trade receivables, financial assets and group borrowings.

The Group ensures that its net exposure to foreign currency movements is kept to an acceptable level by minimising the level of spot rate conversions. With the group trading in currencies other than its sterling base, group policy is to match foreign currency expenditure to create economic hedge. No formal hedging vehicles are currently used by the group.

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Notes to the financial statements (continued) for the year ended 31 December 2011

23 Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units that are expected to benefit from that business combination

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
As 1 January	1,222,430	1,222,430	1,222,430	1,222,430
Less lapsed deferred consideration	(700,000)	-	(700,000)	-
At 31 December 2011	522,430	1,222,430	522,430	1,222,430

The carrying amount of goodwill has been as follows

Cash generating unit

	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Recruitment business	522,430	1,222,430	522,430	1,222,430

The Group and Company test goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount is determined from the value of future cash flows of the cash generating unit. The management prepared cash flows derived from the budgets for the next 5 years and extrapolates cash flows using an estimated growth rate of 3% and a discount rate 5%. As the value in use of the Recruitment business exceeds the carrying value of the goodwill, no impairment is required.