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REGISTRAR OF  
COMPANIES



**Conchango plc**

Report and Financial Statements

Year Ended

31 December 2006

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**BDO Stoy Hayward**  
Chartered Accountants

# **Conchango plc**

## **Annual report and financial statements for the year ended 31 December 2006**

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Directors and Advisers

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### **Directors**

M A Altendorf  
R N Thwaite

### **Secretary and registered office**

A M Griffin FCA, Heritage House, Church Road, Egham, Surrey, TW20 9QD.

### **Company number**

3946001 (Registered in England)

### **Web site**

[www.conchango.com](http://www.conchango.com)

### **Auditors**

BDO Stoy Hayward LLP, 8 Baker Street, London, W1U 3LL.

### **Bankers**

Svenska Handelsbanken AB, Apex Plaza, Forbury Road, Reading, Berkshire, RG1 1AX.

### **Solicitors**

CMS Cameron McKenna, Mitre House, 160 Aldersgate Street, London, EC1A 4DD.

## **Conchango plc**

### **Report of the directors for the year ended 31 December 2006**

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The directors present their report together with the audited financial statements for the year ended 31 December 2006.

#### **Results and dividends**

The consolidated profit and loss account is set out on page 6 and shows the profit for the year.

The directors do not propose payment of a dividend.

#### **Principal activities and trading review**

Conchango's principal activity is the provision of digital media, business and technology services to major companies seeking business advantage through adoption of the latest technology. The group works with clients to develop digital strategies and solutions which will deliver value and provides the design, implementation and support services to help clients realise these strategies.

In 2006 Conchango delivered a 50% increase in revenue and a 58% increase in profit before tax. The very strong performance in 2006 builds upon the foundation of the previous two years and results from the combination of excellent sales and operational performance coupled with a rapidly expanding demand for digital services in the group's core UK and US markets. Fee earner utilisation improved to 67% (2005 - 61%). The group's reputation for quality and innovation advanced significantly in 2006, highlights of which include:

- Industry analysts Forrester identifying Conchango as Europe's leading web design agency ahead of a group including all major European competitors.
- Industry awards including the 2006 "Telecom Website of the year" award for Virgin Mobile ([www.virginmobile.co.uk](http://www.virginmobile.co.uk)) which was designed and built by Conchango.
- International recognition as one of the leading Agile software companies and expansion of our services to include Agile software tools and coaching in addition to Agile project delivery.

The group operates in a very competitive market place against both niche providers and significantly larger consulting firms. The principal risks to which the business is exposed and which could have a material impact on its financial results are as follows:

- The need to maintain pricing and consulting staff utilisation rates.
- Difficulties in the recruitment and retention of consulting staff with the right mix of skills.
- Our high fixed cost base meaning that in the event of an unanticipated reduction in client demand we could not reduce costs quickly enough in the short term.
- Our exposure to the general economic cycle where in the event of a downturn our clients' technology investment projects are vulnerable to delay or cancellation.

The directors work continually to minimise the impact of these risks.

## Conchango plc

### Report of the directors for the year ended 31 December 2006 (*Continued*)

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#### Future developments

The board are very positive about the outlook for 2007 and beyond. We will continue our strategy of growing scale and market share in the retail and financial services markets and establishing a presence in the media and entertainment sector. The group has now developed significant intellectual property assets and we are now seeing initial license sales from this investment contributing to profitability in 2007. During 2007 the group have begun to implement a strategy to increase the proportion of income resulting from long term recurring contracts and the early results of this initiative are very encouraging.

The board believe that the market for Conchango's services will continue to expand in 2007 and beyond fuelled by the rapid growth of the digital economy in Europe and the US. The board also believe that the group is capable of establishing a leadership in this field in the UK and exploiting further opportunities in the US. In parallel with the continuing organic growth of the group the board are considering strategic acquisitions and alliances to accelerate growth in revenues, profits and shareholder returns.

#### Creditor payment

It is the group's policy to agree terms and conditions with suppliers and to pay in accordance with those terms, provided the goods or services concerned have been supplied in accordance with those terms and conditions. The company makes no trade purchases.

#### Directors

The directors throughout the year and their interests in the ordinary shares of the company, as recorded in the register maintained by the company in accordance with the provisions of the Companies Act 1985, were as follows:

	Ordinary shares of 10p each	
	2006	2005
R N Thwaite	2,500,000	2,500,000
M A Altendorf	2,500,000	2,500,000

#### Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

**Conchango plc**

**Report of the directors for the year ended 31 December 2006 (Continued)**

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**Directors' responsibilities (Continued)**

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**Auditors**

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

**On behalf of the Board**

R N Thwaite



**Director**

Date

31 OCT 2007

## **Conchango plc**

### **Report of the independent auditors**

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#### **To the shareholders of Conchango Plc**

We have audited the group and parent company financial statements (the "financial statements") of Conchango Plc for the year ended 31 December 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

#### *Respective responsibilities of directors and auditors*

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also 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 within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

#### *Basis of audit opinion*

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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.

**Conchango plc**

**Report of the independent auditors (*Continued*)**

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*Opinion*

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 December 2006 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 December 2006;
- 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.



**BDO STOY HAYWARD LLP**

*Chartered Accountants  
and Registered Auditors  
London*

Date **31 OCT 2007**

**Conchango plc****Consolidated profit and loss account for the year ended 31 December 2006**

	Note	2006 £	2005 £
<b>Turnover</b>	2	31,450,147	20,939,717
Cost of sales		17,856,639	10,750,719
		<hr/>	<hr/>
<b>Gross profit</b>		13,593,508	10,188,998
Administrative expenses		11,844,272	9,034,669
		<hr/>	<hr/>
<b>Operating profit</b>	5	1,749,236	1,154,329
Profit on disposal of subsidiary		63,250	-
Interest receivable		17,017	13,567
Interest payable and similar charges	6	(61,700)	(52,186)
		<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>		1,767,803	1,115,710
Taxation on profit from ordinary activities	7	(600,000)	(405,100)
		<hr/>	<hr/>
<b>Profit after taxation</b>		1,167,803	710,610
Minority interest		(3,060)	717
		<hr/>	<hr/>
<b>Profit for the year</b>		1,164,743	711,327
		<hr/>	<hr/>

All amounts relate to continuing activities, apart from the profit on disposal of a subsidiary and the minority interest which relates to a subsidiary sold during the year.

The notes on pages 11 to 27 form part of these financial statements.



**Conchango plc**

**Consolidated statement of total recognised gains and losses for the year ended 31 December 2006**

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Profit for the financial year	<b>1,164,743</b>	711,327
Exchange gain/(loss) on translation of net assets of subsidiary undertaking	<b>1,260</b>	(13,534)
<b>Total recognised gains and losses relating to the year</b>	<b>1,166,003</b>	697,793

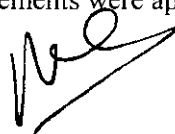
The notes on pages 11 to 27 form part of these financial statements.

**Conchango plc****Consolidated balance sheet at 31 December 2006**

	Note	2006 £	2006 £	2005 £	2005 £
<b>Fixed assets</b>					
Intangible assets	9		1,686,711		1,860,138
Tangible assets	10		985,496		976,517
			<hr/>		<hr/>
			2,672,207		2,836,655
<b>Current assets</b>					
Debtors	12	9,618,527		6,024,178	
Cash at bank and in hand		110,681		436,044	
		<hr/>		<hr/>	
		9,729,208		6,460,222	
<b>Creditors: amounts falling due within one year</b>	13	6,982,213		4,855,498	
		<hr/>		<hr/>	
<b>Net current assets</b>			2,746,995		1,604,724
			<hr/>		<hr/>
<b>Total assets less current liabilities</b>			5,419,202		4,441,379
<b>Creditors: amounts falling due after more than one year</b>	14		107,321		47,137
<b>Provisions</b>	16		12,000		230,000
			<hr/>		<hr/>
			5,299,881		4,164,242
			<hr/>		<hr/>
<b>Capital and reserves</b>					
Called up share capital	17		511,301		511,301
Share premium	18		-		5,850,000
Merger reserve	18		-		13,887,321
Profit and loss account	18		4,788,580		(16,084,065)
			<hr/>		<hr/>
<b>Shareholders' funds</b>	19		5,299,881		4,164,557
Minority interest	20		-		(315)
			<hr/>		<hr/>
			5,299,881		4,164,242
			<hr/>		<hr/>

The financial statements were approved by the Board of Directors and authorised for issue on **31 OCT 2007**

R N Thwaite  
Director



The notes on pages 11 to 27 form part of these financial statements.

**Conchango plc**

**Company balance sheet at 31 December 2006**

	Note	2006 £	2006 £	2005 £	2005 £
<b>Fixed assets</b>					
Investments	11		2,550,968		2,558,720
<b>Current assets</b>					
Debtors - due within one year	12	9,415		-	
- due after more than one year	12	450,000		450,000	
		459,415		450,000	
Cash at bank and in hand		203		221,337	
		459,618		671,337	
<b>Creditors: amounts falling due within one year</b>	13	699,173		742,209	
<b>Net current liabilities</b>			(239,555)		(70,872)
<b>Total assets less current liabilities</b>			2,311,413		2,487,848
<b>Creditors: amounts falling due after more than one year</b>	14		262,317		312,317
<b>Provisions</b>	16		-		200,000
			2,049,096		1,975,531
<b>Capital and reserves</b>					
Called up share capital	17		511,301		511,301
Share premium account	18		-		5,850,000
Profit and loss account	18		1,537,795		(4,385,770)
<b>Shareholders' funds</b>	19		2,049,096		1,975,531

The financial statements were approved by the Board of Directors and authorised for issue on **31 OCT 2007**

R N Thwaite  
Director



The notes on pages 11 to 27 form part of these financial statements.

**Conchango plc**

**Consolidated cash flow statement for the year ended 31 December 2006**

	Note	2006 £	2006 £	2005 £	2005 £
<b>Net cash outflow from operating activities</b>	23		(200,932)		(8,138)
<b>Returns on investments and servicing of finance</b>					
Interest received		17,017		13,567	
Interest paid		(61,700)		(52,186)	
<b>Net cash outflow from returns on investments and servicing of finance</b>			(44,683)		(38,619)
<b>Taxation</b>					
Corporation tax paid			(429,441)		(93,535)
<b>Capital expenditure and financial investment</b>					
Purchase of tangible fixed assets		(256,860)		(255,091)	
Sale of tangible fixed assets		130,852		99,743	
<b>Net cash outflow on capital expenditure</b>			(126,008)		(155,348)
<b>Acquisitions and disposals</b>					
Repayment of loan notes		(237,652)		(228,663)	
Sale of subsidiary		70,000		-	
<b>Net cash outflow on acquisitions and disposals</b>			(167,652)		(228,663)
<b>Cash outflow before use of liquid resources and financing</b>			(968,716)		(524,303)
<b>Financing</b>					
Capital element of finance lease rental payments			(103,948)		(145,370)
Dividends paid			(30,679)		-
<b>Decrease in cash</b>	24		(1,103,343)		(669,673)

The notes on pages 11 to 27 form part of these financial statements.

## 1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

### *Basis of consolidation*

The results of subsidiaries have been incorporated from the effective date of acquisition under acquisition accounting policies.

### *Turnover*

Turnover is the total amount receivable for goods supplied and services provided, excluding value added tax and other sales related taxes.

### *Goodwill*

Goodwill arising on the acquisition of subsidiary undertakings, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life, which is between 5 and 20 years. Provision is made for any impairment.

### *Cost of sales*

Cost of sales includes purchases of hardware and software for resale, sub-contract purchases and direct salary and National Insurance costs of fee-earning staff.

### *Depreciation*

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all tangible fixed assets, except for investment properties and freehold land evenly over their expected useful lives. It is calculated at the following rates:

Leasehold improvements	-	Over the life of the lease
Motor vehicles	-	25% pa on net book value
Office equipment and computers	-	25% pa on cost
Office furniture and fittings	-	25% pa on cost

### *Investments*

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

In the company balance sheet, for investments in subsidiaries acquired for consideration including the issue of shares qualifying for merger relief, cost is measured by reference to the nominal value only of the shares issued. Any premium is ignored.

**1 Accounting policies (Continued)**

*Long term contracts*

Operating profit includes attributable profit on long-term contracts based on a prudent estimate of the percentage completion of each contract. Amounts recoverable on contracts are included in debtors due within one year. Where a loss is anticipated on a contract, full provision is made for the loss as soon as it is identified.

*Pension costs*

The group operates a defined contribution pension scheme and the amount charged to the profit and loss account in respect of pension costs is the total of contributions payable in the year.

*Foreign exchange*

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the profit and loss account.

The results of overseas operations are translated at the average rates of exchange during the period and their balance sheets at the rate ruling at the balance sheet date. Exchange differences arising on translation of the opening net assets and results of overseas operations are dealt with through reserves.

*Leased assets*

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

Reverse premiums and similar incentives to enter into operating lease agreements are initially recorded as deferred income and released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate.

*Deferred taxation*

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

## Conchango plc

### Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

#### 1 Accounting policies (Continued)

##### *Share options*

When shares and share options are granted to employees a charge is made to the profit and loss account and a reserve created in capital and reserves to record the fair value of the awards at the date of grant in accordance with FRS 20 "share based payments". This charge is spread over the vesting period.

When shares and share options are granted to employees of subsidiary companies, the fair value of the awards is treated as a capital contribution and spread over the period of performance relating to the grant. The corresponding entry is made in reserves.

#### 2 Turnover

	2006 £	2005 £
Geographical analysis by origin:		
European Union	29,854,588	19,828,171
North America	1,595,559	1,111,546
	<u>31,450,147</u>	<u>20,939,717</u>

Turnover is attributable to the one activity of IT consultancy.

Further segmental geographical disclosure of profit before tax and net assets is not given as the directors consider that this information would be seriously prejudicial to the interests of the group.

#### 3 Employees

Group	2006 £	2005 £
Staff costs consist of:		
Wages and salaries	14,319,377	9,524,026
Social security costs	1,653,813	1,170,882
Other pension costs	1,305,112	1,041,348
	<u>17,278,302</u>	<u>11,736,256</u>

## Conchango plc

### Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

#### 3 Employees (Continued)

	2006 Number	2005 Number
The average number of employees, including directors, during the year was as follows:		
Consultants	205	144
Sales	13	13
Administration	29	22
	<u>247</u>	<u>179</u>

#### Company

There were no employee costs in the parent company in the current or prior year.

#### 4 Directors

	2006 £	2005 £
Directors' remuneration consists of:		
Emoluments	662,481	476,631
Payments to defined contribution pension scheme	48,060	148,060
	<u>710,541</u>	<u>624,691</u>

Retirement benefits are accruing to 2 (2005 - 2) directors under money purchase schemes.

The emoluments of the highest paid director included in the above figures were:

	2006 £	2005 £
Emoluments	331,631	238,811
Pension scheme contributions	24,030	74,030
	<u>355,661</u>	<u>312,841</u>



**Conchango plc****Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)****5 Operating profit**

	2006 £	2005 £
This has been arrived at after charging:		
Goodwill amortisation	165,675	169,251
Auditors' remuneration for audit services	32,000	24,450
Auditors' remuneration for non-audit services	5,185	13,090
Depreciation	315,852	350,639
Profit on disposal of fixed assets	(5,861)	(2,790)
Payments under operating leases – land and buildings	747,307	775,958

**6 Interest payable and similar charges**

	2006 £	2005 £
Interest on bank loans and overdrafts	24,791	15,032
Interest on other loans	21,446	11,542
Finance lease interest	15,463	25,612
	61,700	52,186

**7 Taxation on profit from ordinary activities**

	2006 £	2005 £
<i>Current tax</i>		
UK corporation tax on profits of the year	600,000	406,000
Overseas tax	-	-
Adjustment in respect of previous years	-	(900)
	<hr/>	<hr/>
Total current tax	600,000	405,100
<i>Deferred tax</i>		
Movement in deferred tax provision	-	-
	<hr/>	<hr/>
Taxation on profit on ordinary activities	600,000	405,100
	<hr/>	<hr/>

The tax assessed for the year differs from that obtained by applying the standard rate of corporation tax in the UK. The differences are explained below:

	2006 £	2005 £
Profit on ordinary activities before tax	1,767,803	1,115,710
	<hr/>	<hr/>
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2005 – 30%)	530,341	334,713
Effects of:		
Expenses not deductible for tax purposes	88,091	59,721
Capital allowances for year in excess of depreciation	(25,743)	(6,808)
Adjustment to tax charge in respect of previous years	-	(900)
Losses created in the year	6,283	16,483
Tax losses brought forward utilised in the year	(541)	(1,416)
Movement on provisions	14,207	3,709
Tax rate differentials	(2,204)	(402)
Other differences	(10,434)	-
	<hr/>	<hr/>
Current tax charge for year	600,000	405,100
	<hr/>	<hr/>

## Conchango plc

### Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

#### 8 Profit for the financial year

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group profit for the year includes a profit after tax of £104,244 (2005 - £50,006) which is dealt with in the financial statements of the parent company.

#### 9 Intangible assets

Group	Goodwill on consolidation £
<i>Cost</i>	
At 1 January 2006	17,398,770
Less: adjustment re final payment for Lateral Limited (see note 16)	(7,752)
	<hr/>
At 31 December 2006	17,391,018
	<hr/>
<i>Amortisation and impairment</i>	
At 1 January 2006	15,538,632
Amortisation in the year	165,675
	<hr/>
At 31 December 2006	15,704,307
	<hr/>
<i>Net book value</i>	
At 31 December 2006	1,686,711
	<hr/>
At 31 December 2005	1,860,138
	<hr/>

**Conchango plc**

**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)**

**10 Tangible assets**

<b>Group</b>	<b>Leasehold improvements £</b>	<b>Office furniture and equipment £</b>	<b>Motor vehicles £</b>	<b>Total £</b>
<i>Cost</i>				
At 1 January 2006	412,275	2,023,655	374,717	2,810,647
Exchange adjustments	-	(4,851)	-	(4,851)
Additions	-	394,024	56,868	450,892
Disposals	-	(954,788)	(251,479)	(1,206,267)
At 31 December 2006	<b>412,275</b>	<b>1,458,040</b>	<b>180,106</b>	<b>2,050,421</b>
<i>Depreciation</i>				
At 1 January 2006	137,704	1,524,517	171,909	1,834,130
Exchange adjustments	-	(3,781)	-	(3,781)
Charge for the year	37,518	234,279	44,055	315,852
Disposals	-	(937,509)	(143,767)	(1,081,276)
At 31 December 2006	<b>175,222</b>	<b>817,506</b>	<b>72,197</b>	<b>1,064,925</b>
<i>Net book value</i>				
At 31 December 2006	<b>237,053</b>	<b>640,534</b>	<b>107,909</b>	<b>985,496</b>
At 31 December 2005	274,571	499,138	202,808	976,517

The net book value of tangible fixed assets includes an amount of £252,578 (2005 - £239,120) in respect of assets held under finance leases. The related depreciation charge for the year was £56,724 (2005 - £59,994).

## Conchango plc

### Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

#### 11 Investments

£

##### Company

###### Cost

At 1 January	7,136,579
Less: adjustment in respect of Lateral Limited (see note 16)	(7,752)

At 31 December 2006	7,128,827
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###### Provision for impairment

At 1 January and 31 December 2006	4,577,859
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###### Net book value

At 31 December 2006	2,550,968
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At 31 December 2005	2,558,720
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The parent company and the group have investments in the following subsidiary undertakings, which are included in the consolidated financial statements:

	Country of incorporation and operation	Class	Holding and voting %
Conchango (Holdings) Limited	England	Ordinary	100
Conchango (UK) plc	England	Ordinary	100
Conchango (IIS) Limited	England	Ordinary	100
Conchango (New York) Inc	USA	Common	100
Conchango (Texas) Inc	USA	Common	100
Conchango GmbH	Germany	Ordinary	100
Lateral Limited	England	Ordinary	100
i-movo Limited *	England	Ordinary	70

The principal activity of all the subsidiaries is IT consultancy except Conchango (IIS) Limited, Conchango GmbH and Conchango (Texas) Inc which are dormant.

\* i-movo Limited, which develops software in the mobile communications field, was sold on 7 August 2006 to directors of Conchango (UK) plc, a subsidiary company. The sale price of £70,000 was based upon an independent valuation.

# Conchango plc

## Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)

### 12 Debtors

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Amounts receivable within one year:				
Trade debtors	8,297,264	4,936,911	-	-
Other debtors	104,238	15,762	9,415	-
Prepayments and accrued income	1,217,025	1,071,505	-	-
	<u>9,618,527</u>	<u>6,024,178</u>	<u>9,415</u>	<u>-</u>
Amounts receivable after more than one year:				
Amounts owed by group undertakings	-	-	450,000	450,000
	<u>-</u>	<u>-</u>	<u>450,000</u>	<u>450,000</u>

### 13 Creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank overdraft (secured)	920,572	142,592	-	-
Loan notes payable	-	45,404	-	45,404
Trade creditors	1,331,719	1,441,280	-	-
Amounts due to group undertakings	-	-	695,659	696,805
Other creditors	356,852	222,646	-	-
Taxation and social security	1,711,188	1,254,054	3,514	-
Corporation tax	586,279	415,720	-	-
Obligations under finance leases	114,352	84,718	-	-
Accruals and deferred income	1,961,251	1,249,084	-	-
	<u>6,982,213</u>	<u>4,855,498</u>	<u>699,173</u>	<u>742,209</u>

The overdraft is secured by a floating charge over the assets of a subsidiary company. Finance leases are secured on the assets to which they relate.

The loan notes are guaranteed by a bank guarantee in favour of the holder.

**Conchango plc**

Notes forming part of the financial statements for the year ended 31 December 2006 (*Continued*)

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

	<b>Group 2006 £</b>	<b>Group 2005 £</b>	<b>Company 2006 £</b>	<b>Company 2005 £</b>
Amounts due to group undertakings	-	-	262,317	312,317
Obligations under finance leases	107,321	47,137	-	-
	<u>107,321</u>	<u>47,137</u>	<u>262,317</u>	<u>312,317</u>

**15 Obligations under finance leases**

	<b>Group 2006 £</b>	<b>Group 2005 £</b>
Amounts due under finance leases are repayable as follows:		
In the next year	114,352	84,718
In the second to fifth years	107,321	47,137
	<u>221,673</u>	<u>131,855</u>

**16 Provisions**

<b>Group</b>	<b>Deferred consideration £</b>	<b>Onerous leases £</b>	<b>Total £</b>
Balance at 1 January 2006	200,000	30,000	230,000
Consideration satisfied	(192,248)	-	(192,248)
Transfer to profit and loss account - utilised	-	(18,000)	(18,000)
Adjustment	(7,752)	-	(7,752)
	<u>-</u>	<u>12,000</u>	<u>12,000</u>
Balance at 31 December 2006	-	12,000	12,000

**Conchango plc**

**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)**

**16 Provisions (Continued)**

	2006 Unprovided £	2005 Unprovided £	2006 Provided £	2005 Provided £
Deferred tax balances can be analysed as follows:				
Accelerated capital allowances	(76,103)	(61,825)	-	-
Losses	(172,000)	(172,000)	-	-
Other	(40,226)	(26,019)	-	-
	<u>(288,329)</u>	<u>(259,844)</u>	<u>-</u>	<u>-</u>

Amounts in brackets denote deferred tax assets.

**Company**

**Deferred consideration**

	2006 £	2005 £
Balance at 31 December	-	200,000
		<u>£</u>
Balance at 1 January 2006		200,000
Consideration satisfied		(192,248)
Adjustment		(7,752)
		<u>-</u>
Balance at 31 December 2006		-

The provision for deferred consideration arose on the acquisition of Lateral Limited in the prior year.

There is no unprovided deferred tax in the company.



**Conchango plc**

**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)**

**17 Share capital**

	2006 £	2005 £
<i>Authorised</i>		
6,750,000 ordinary shares of 10p each	675,000	675,000
<i>Allotted, called up and fully paid</i>		
5,113,010 ordinary shares of 10p each	511,301	511,301

**18 Reserves**

Group	Share premium £	Merger reserve £	Profit and loss account £
At 1 January 2006	5,850,000	13,887,321	(16,084,065)
Share premium cancellation	(5,850,000)	-	5,850,000
Retained profit for the year	-	-	1,164,743
Dividends paid	-	-	(30,679)
Exchange differences	-	-	1,260
Transfer to profit and loss account	-	(13,887,321)	13,887,321
At 31 December 2006	-	-	4,788,580

Company	Share premium £	Profit and loss account £
At 1 January 2006	5,850,000	(4,385,770)
Share premium cancellation	(5,850,000)	5,850,000
Profit for the year	-	104,244
Dividends paid	-	(30,679)
At 31 December 2006	-	1,537,795

**Conchango plc**

**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)**

**19 Reconciliation of movement in shareholders' funds**

	<b>Group 2006 £</b>	<b>Group 2005 £</b>	<b>Company 2006 £</b>	<b>Company 2005 £</b>
Profit for the year	<b>1,164,743</b>	711,327	<b>104,244</b>	50,000
Dividends paid	<b>(30,679)</b>	-	<b>(30,679)</b>	-
Other net recognised gains and losses relating to the year	<b>1,260</b>	(13,534)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase in shareholders' funds	<b>1,135,324</b>	697,793	<b>73,565</b>	50,000
Opening shareholders' funds	<b>4,164,557</b>	3,466,764	<b>1,975,531</b>	1,925,531
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	<b>5,299,881</b>	4,164,557	<b>2,049,096</b>	1,975,531
	<hr/>	<hr/>	<hr/>	<hr/>

**20 Minority interests**

	<b>Group 2006 £</b>	<b>Group 2005 £</b>
<i>Equity interests</i>		
At 1 January	(315)	402
Minorities' share of profit/(loss) for the year	<b>3,060</b>	(717)
Disposal of subsidiary	<b>(2,745)</b>	-
	<hr/>	<hr/>
At 31 December	-	(315)
	<hr/>	<hr/>

**21 Capital commitments**

<b>Group</b>	<b>2006 £</b>	<b>2005 £</b>
Contracted but not provided for	<b>173,463</b>	18,606
	<hr/>	<hr/>

## 22 Commitments under operating leases

As at 31 December 2006, the group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings 2006 £	Land and buildings 2005 £
Operating leases which expire:		
Within one year	60,209	14,400
In two to five years	272,000	21,887
Over five years	426,586	698,586
	<hr/>	<hr/>
	758,795	734,873
	<hr/>	<hr/>

## 23 Reconciliation of operating loss to net cash flow from operating activities

Group	Group 2006 £	Group 2005 £
Operating profit	1,749,236	1,154,329
Depreciation charge	315,852	350,639
Profit on disposal	(5,861)	(2,790)
Goodwill amortisation	165,675	169,251
Increase in debtors	(3,594,349)	(3,015,516)
Increase in creditors, accruals and provisions	1,166,451	1,349,615
Exchange differences	2,064	(13,666)
	<hr/>	<hr/>
Net cash outflow from operating activities	(200,932)	(8,138)
	<hr/>	<hr/>

The net cash flow from operating activities relates entirely to continuing activities.

**Conchango plc**

**Notes forming part of the financial statements for the year ended 31 December 2006 (Continued)**

**24 Reconciliation of net cash flow to movement in net debt**

	2006 £	2005 £
Decrease in cash	(1,103,343)	(669,673)
Cash movements relating to debt and lease financing	103,948	145,370
Repayment of loan notes	237,652	228,663
	<hr/>	<hr/>
Movement in net debt resulting from cash flows	(761,743)	(295,640)
Issue of loan notes	(192,248)	-
Inception of finance leases	(194,032)	(65,894)
Translation differences	266	(328)
	<hr/>	<hr/>
Movement in net debt	(1,147,757)	(361,862)
Opening net funds	116,193	478,055
	<hr/>	<hr/>
Closing net (debt)/funds	(1,031,564)	116,193
	<hr/> <hr/>	<hr/> <hr/>

**25 Analysis of net funds/(debt)**

	At 1 January 2006 £	Cash flow £	Other movements £	At 31 December 2006 £
Cash in hand and at bank	214,707	(104,026)	-	110,681
Overdrafts	(142,592)	(777,980)	-	(920,572)
Restricted cash at bank	221,337	(221,337)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Finance leases	293,452	(1,103,343)	-	(809,891)
	(131,855)	103,948	(193,766)	(221,673)
Loan notes	(45,404)	237,652	(192,248)	-
	<hr/>	<hr/>	<hr/>	<hr/>
	116,193	(761,743)	(386,014)	(1,031,564)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## 26 Related party transactions

A subsidiary company has leased two properties owned by M A Altendorf and R N Thwaite who are directors of the group. Annual rent payable on the property is £28,800 and the leases are renewable annually. The subsidiary company is also responsible for all outgoings on the properties. There were no amounts outstanding at the balance sheet date.

The group's 70% shareholding in i-movo Limited was sold on 7 August 2006 to directors of Conchango (UK) plc, a subsidiary company. The sale price of £70,000 was based upon an independent valuation.

## 27 Pension commitments

The group operates defined contribution pension plans, the premiums being charged to profit and loss account as they become payable. Included in other creditors is £134,085 (2005 - £86,730) in respect of pensions payments due.

## 28 Share options

Options have been granted under executive share option schemes to subscribe for ordinary shares in the company as follows:

Exercisable * between	Exercise price	Number outstanding
May 1998 and May 2008	70p	436,050
November 1998 and November 2008	80p	237,500
March 2000 and March 2010	200p	172,500
February 2001 and February 2011	220p	151,079
November 2001 and November 2011	110p	30,250
April 2006 and April 2013	60p	271,000
October 2006 and October 2014	75p	142,650
Total		1,441,029

\* All options are only exercisable on a flotation or sale of the group.