

Registered no: 04220016

**XCHANGING PROCUREMENT SERVICES (HOLDCO) LIMITED**

**Annual report**

**for the year to 31 December 2004**



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# **XCHANGING PROCUREMENT SERVICES (HOLDCO) LIMITED**

## **Annual report for the year ended 31 December 2004**

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## **Directors and advisers**

### **Directors**

D W Andrews  
R A Houghton  
A M Imrie  
K Mealand  
D Rich-Jones  
J Robinson  
P Rushton

### **Secretary**

N Martin

### **Registered office**

Warwick House  
PO Box 87  
Farnborough Aerospace Centre  
Farnborough  
Hampshire  
GU16 6YU

### **Independent auditors**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

### **Solicitors**

Clifford Chance  
200 Aldersgate Street  
London  
EC1A 4JJ

### **Bankers**

Lloyds TSB plc  
City office  
P O Box 72  
Bailey Drive  
Gillingham Business Park  
Kent  
ME8 0LS

## **Directors' report for the year ended 31 December 2004**

The directors present their report and the audited financial statements of the group and the company for the year ended 31 December 2004.

### **Principal activity**

The group is a provider of procurement related services for indirect spend categories under outsourcing contracts.

### **Review of business and future developments**

2004 has been a successful year for the group in terms of winning new third party business. The year-end financial position was, however slightly below expectations, reflecting lower customer volumes on existing contracts. This has been partially mitigated by strong margin performance. The directors expect a significant increase in both the level of activity and financial position over the next year as the group fully integrates the new third party business won during 2004.

### **Results and dividends**

The group's profit after taxation for the year was £4,833,000 (2003 : £4,437,000). The directors recommend the payment of a final dividend of £24.16 per £0.10 share amounting to a total dividend payment of £4,833,000 (2003 : £22.18 per £0.10 share or total dividend of £4,437,000).

The group distributes all earnings after tax, accordingly no profits have been transferred to reserves.

### **Directors and their interests**

The directors who held office during the year and up to the date of the signing of the financial statements were:

#### **Name**

D Andrews  
R A Houghton  
A M Imrie  
K Mealand  
D Rich-Jones  
J Robinson  
P Rushton

None of the directors had any interest in the shares of the company during the year or as at 31 December 2004.

## Directors' report for the year ended 31 December 2004 (continued)

During the year, DW Andrews was also a director of Xchanging BV, the ultimate parent company, and his interest in the shares and share options for Xchanging BV are shown in the financial statements of that company (see note 23). The other directors who have interests in the shares and share options in the ultimate parent company are shown below.

### Shareholdings:

	Scheme shares of EURO 0.01 each	Scheme shares of EURO 0.01 each
	2004	2003
D Rich-Jones	62,500	62,500
R A Houghton	125,000	125,000

	Common shares of EURO 0.01 each	Common shares of EURO 0.01 each
	2004	2003
D Rich-Jones	137,500	75,000
R A Houghton	150,000	150,000
P Rushton	25,000	-

	Class G shares of EURO 0.01 each	Class G shares of EURO 0.01 each
	2004	2003
D Rich-Jones	1,111	1,111
R A Houghton	3,333	3,333

## Directors' report for the year ended 31 December 2004 (continued)

Share options under approved scheme over common shares EURO 0.01:

Director	Number of options At 1 January 2004	During the year			At 31 December 2004	Exercise price	Date from which exercisable	Expiry date
		Granted	Lapsed	Exercised				
D Rich-Jones	62,500	-	-	(62,500)	-	26.2p	23/05/03	23/05/10
	6,570	-	-	-	6,570	207.0p	19/12/04	19/12/11
R Houghton	500	-	-	-	500	207.0p	19/12/04	19/12/11
	21,295	-	-	-	21,295	136.0p	24/11/06	24/11/13
P Rushton	25,000	-	-	(25,000)	-	66.1p	09/11/03	09/11/10
	6,503	-	-	-	6,503	207.0p	24/10/04	24/10/11

Share options under unapproved scheme over common shares EURO 0.01:

Director	Number of options At 1 January 2004	During the year			At 31 December 2004	Exercise price	Date from which Exercisable	Expiry Date
		Granted	Lapsed	Exercised				
D Rich-Jones	25,000	-	-	-	25,000	352.3p	01/06/04	01/06/11
	118,430	-	-	-	118,430	207.0p	19/12/04	19/12/11
	100,000	-	-	-	100,000	136.0p	24/11/06	24/11/13
	100,000	-	-	-	100,000	383.0p	24/11/06	24/11/13
R Houghton	149,500	-	-	-	149,500	207.0p	19/12/04	19/12/11
	103,705	-	-	-	103,705	136.0p	24/11/06	24/11/13
	125,000	-	-	-	125,000	383.0p	24/11/06	24/11/13
P Rushton	13,497	-	-	-	13,497	207.0p	24/10/04	24/10/11
	15,000	-	-	-	15,000	207.0p	19/12/04	19/12/11
	20,000	-	-	-	20,000	136.0p	24/11/06	24/11/13
	20,000	-	-	-	20,000	383.0p	24/11/06	24/11/13
	-	25,000	-	-	25,000	383.0p	12/12/07	12/12/14

## **Directors' report for the year ended 31 December 2004 (continued)**

### **Statement of directors' responsibilities**

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and group as at the end of the financial year and of the profit or loss of the company for that year. 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;
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

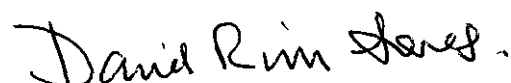
The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and group 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 group, and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **Auditors**

The auditors, Pricewaterhouse Coopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting.

### **By order of the board**



**D Rich Jones**  
**Director**

**1 June 2005**

**Independent auditors' report to the members of  
XCHANGING PROCUREMENT SERVICES (HOLDCO) LIMITED**

We have audited the financial statements, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

**Basis of audit opinion**

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

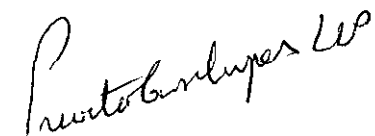
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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



**Independent auditors' report to the members of  
XCHANGING PROCUREMENT SERVICES (HOLDCO) LIMITED  
(continued)**

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at 31 December 2004 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read "PricewaterhouseCoopers LLP", is written over the printed name of the firm.

**PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
London**

**1 June 2005**

# Consolidated profit and loss account for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
<b>Turnover</b>	2	<b>46,900</b>	42,087
Operating costs	3	(39,767)	(37,087)
Exceptional items			
Restructuring charge	6	-	(146)
Cost guarantee	6	-	2,125
Operating costs including exceptional items		(39,767)	(35,108)
<b>Operating profit – continuing operations</b>		<b>7,133</b>	6,979
Interest receivable	7	104	27
<b>Profit on ordinary activities before taxation</b>		<b>7,237</b>	7,006
Tax on profit on ordinary activities	8	(2,404)	(2,569)
<b>Profit on ordinary activities after taxation</b>		<b>4,833</b>	4,437
Dividends	17	(4,833)	(4,437)
<b>Result for the financial year</b>	18	<b>-</b>	-

All results derive from continuing operations.

The group have no gains or losses other than those included in the results above, therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the result for the year stated above and their historical cost equivalents.

# XCHANGING PROCUREMENT SERVICES (HOLDCO) LIMITED

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## Balance sheets

At 31 December 2004

	Note	Group 2004 £'000	Company 2004 £'000	Group 2003 £'000	Company 2003 £'000
<b>Fixed assets</b>					
Intangible assets		829	-	1,005	-
Tangible assets	1	30	-	62	-
Investments	1	-	-	-	-
		859	-	1,067	-
<b>Current assets</b>					
Debtors — amounts falling due within one year	1	12,723	5,041	6,827	3,439
Debtors — amounts falling due after one year	1	687	-	77	-
		13,410	5,041	6,904	3,439
Cash at bank and in hand		3,405	-	3,111	-
		16,815	5,041	10,015	3,439
<b>Creditors: amounts falling due within one year</b>	1	<b>(17,474)</b>	<b>(4,841)</b>	<b>(10,736)</b>	<b>(3,239)</b>
<b>Net current (liabilities) / assets</b>		<b>(659)</b>	<b>200</b>	<b>(721)</b>	<b>200</b>
<b>Total assets less current liabilities</b>		<b>200</b>	<b>200</b>	<b>346</b>	<b>-</b>
<b>Provisions for liabilities and charges</b>	1	<b>-</b>	<b>-</b>	<b>(146)</b>	<b>-</b>
<b>Net assets</b>		<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>Capital and reserves</b>					
Called up share capital	1	20	20	20	20
Share premium account	1	180	180	180	180
Profit and loss account	1	-	-	-	-
<b>Total equity shareholders' funds</b>	1	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>

The financial statements on pages 8 to 27 were approved by the board of directors on 1 June 2005 and were signed on its behalf by:

*David Rich Jones*  
**D Rich Jones**  
 Director

# Consolidated cash flow statement for the year ended 31 December 2004

	Notes	2004 £'000	2003 £'000
<b>Net cash inflow from operating activities</b>		<b>6,443</b>	<b>4,774</b>
<b>Returns on Investment and Servicing of Finance</b>			
Interest received		104	27
<b>Taxation</b>		<b>(2,116)</b>	<b>(1,432)</b>
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		-	(46)
Pre-contract expenditure		(829)	-
Implementation development expenditure		(69)	(1,088)
<b>Equity dividends paid to shareholders</b>		<b>(3,239)</b>	<b>(3,202)</b>
<b>Increase/(Decrease) in cash in the year</b>	20	<u><b>294</b></u>	<u><b>(967)</b></u>

# Reconciliation of operating profit to net cash inflow from operating activities

	2004	2003
	£'000	£'000
Operating profit	7,133	6,979
Depreciation charge	32	26
Implementation cost amortisation	191	83
Pre-contract cost amortisation	54	27
Write-off of development costs	54	-
(Decrease)/increase in provision	(146)	146
Increase in debtors	(5,731)	(2,313)
Increase/(decrease) in creditors	4,856	(174)
<b>Net cash inflow from continuing operating activities</b>	<b>6,443</b>	<b>4,774</b>

**Notes to the financial statements  
for the year ended 31 December 2004****1 Principal accounting policies**

The financial statements have been prepared on the going concern basis and in accordance with the Companies Act 1985 and applicable accounting standards. The principal accounting policies, which have been applied consistently with the prior year are set out below.

**Basis of accounting**

The financial statements are prepared in accordance with the historical cost convention.

**Basis of consolidation**

The group financial statements represent the consolidation of the results of the company and all its subsidiaries. The results and net assets of subsidiary undertakings are included in the group profit and loss account and balance sheet using the acquisition method of accounting. Transactions and balances between subsidiary undertakings are eliminated.

**Turnover**

Turnover is recognised only when it is probable that the economic benefits associated with a transaction will flow to the group.

Turnover, which is stated exclusive of value added tax, comprises amounts receivable for services provided, net of guaranteed rebates to customers.

For categories where the group acts as an agent for its customers, turnover represents commissions earned during the financial period. Where the group transacts directly with suppliers and bears the associated risks and rewards, the entire transaction value is recorded as turnover when the service is performed.

**Intangible fixed assets – development costs**

Development costs are stated at cost less a provision for amortisation.

Costs incurred during the development period in the design of processes and systems that substantially improve those already installed in the business are treated as development costs and capitalised and amortised over the life of the contract in accordance with SSAP 13. Costs that are capitalised comprise directly attributable costs that are incremental in nature and incurred during development - including salaries of staff utilized in the development - and third party costs.

Development costs do not include restructuring costs or allocation of central overheads, which are all expensed to the profit and loss account as incurred.

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

Prior to capitalisation, the present value of future revenue streams is compared to the development costs to be capitalised. Costs are capitalised only in circumstances where the future revenue streams exceed the development costs.

Costs are amortised over the duration of the contract, from the date the contract is signed, unless specific circumstances indicate that a shorter period is more relevant. Impairment reviews are performed at the end of the first period after capitalisation or when there is a trigger event to ensure that the present value of estimated future revenue streams from the contract exceeds the capitalised costs. Where these are deemed to be impaired the excess is written off to the profit and loss account.

**Tangible fixed assets**

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight-line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Computer Equipment	33%
Office equipment	25%

**Fixed asset investments**

Fixed asset investments are stated at cost less any provision for impairment.

**Pre-contract costs**

Pre-contract costs comprise legal and professional expenses and other directly attributable staff costs incurred in order to obtain a relevant contract.

Pre-contract costs incurred prior to the achievement of virtual certainty are expensed as incurred.

Costs that are directly attributable to a contract that are incurred after the point when there is virtual certainty, supported by sufficient evidence, that a contract will be obtained and the contract will result in future net cash inflows with a present value no less than all amounts recognised, are carried forward as deferred costs. In addition, directly attributable costs incurred prior to virtual certainty that are recoverable under the terms of a letter of intent are also recognised as an asset. These pre-contract costs are all included within debtors and are amortised over the life of the contract, on a straight-line basis starting from the date when the contract commences. Carrying values are reviewed for impairment at least annually and in any event when a change in circumstances affecting the contract arise.

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)****Foreign currencies**

Transactions denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities are translated at the rates of exchange ruling on the balance sheet date and any differences arising are taken to the profit and loss account.

**Deferred taxation**

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date.

On the basis of all available evidence, deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the rates that are expected to apply in the years in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Pensions**

Certain employees of the group participate in funded defined benefit schemes operated by BAE SYSTEMS plc. The funds are valued every three years by a professionally qualified independent actuary, the rates of contribution being determined by the actuary.

Under the terms of the contractual agreement with BAE SYSTEMS plc, the group's contribution was fixed for five years. The pension costs are therefore charged to the profit and loss account on an accruals basis in the year in which they arise. Differences between the funding rate set by the schemes' trustees and the pension cost to the group are borne by BAE SYSTEMS plc.

Certain employees of the group participate in a defined contribution scheme operated by Xchanging Limited. Contributions made to the scheme are charged to the profit and loss account in the year in which they arise.



## Notes to the financial statements for the year ended 31 December 2004 (continued)

### Related party transactions

The company has taken advantage of the exemption available in Financial Reporting Standard 8 not to disclose transactions with related parties that are more than 90% owned by the group. Other transactions are disclosed in note 24.

### 2 Turnover

Turnover arises entirely from the group's activity in the United Kingdom and is derived solely from the group's only activity.

### 3 Operating profit

Operating costs comprise:	2004	2003
	£'000	£'000
<b>Staff costs:</b>		
Wages and salaries	4,093	3,775
Social security costs	372	272
Other pension costs	113	102
	<u>4,578</u>	<u>4,149</u>
Other operating charges	34,821	32,739
Foreign exchange gain	(15)	(3)
Depreciation charge – owned assets	32	26
Amortisation of development costs	191	83
Amortisation of pre-contract costs	54	27
Write-off of development costs	54	-
Auditors' remuneration – audit services	44	46
– non audit services	8	20
	<u>39,767</u>	<u>37,087</u>

The audit fee for Xchanging Procurement Services (Holdco) Limited was £8,000 (2003 : £8,000).

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

**4 Directors' emoluments**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	<u>681</u>	<u>529</u>
<b>Highest Paid Director</b>		
Aggregate emoluments – excluding pension contributions	<u>385</u>	<u>254</u>

There are no directors (2003 : nil) accruing benefits under retirement benefit schemes.

Two directors (2003 : 2) exercised share options during the year. The highest paid director exercised share options during both 2004 and 2003.

**5 Employees**

The average monthly number of persons (including executive directors) employed by the group during the year was:

	<b>2004</b>	<b>2003</b>
	<b>Number</b>	<b>Number</b>
<b>By activity</b>		
Selling and distribution	3	3
Management and administration	<u>60</u>	<u>54</u>
	<u>63</u>	<u>57</u>

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

**6 Exceptional items**

	2004	2003
	£'000	£'000
Restructuring charge	-	(146)
Cost Guarantee	-	2,125
	<u>-</u>	<u>1,979</u>

Restructuring costs were incurred during December 2003 from a re-alignment of commercial activities.

The cost guarantee relates to contractual support to operating costs supplied by Xchanging Limited, to a customer.

**7 Interest receivable**

	2004	2003
	£'000	£'000
Bank interest received	<u>104</u>	<u>27</u>

**Notes to the financial statements**  
**for the year ended 31 December 2004 (continued)**

**8 Tax on profit on ordinary activities**

**a) Analysis of charge in period**

	2004 £'000	2003 £'000
<b>Current tax</b>		
UK corporation tax at 30% - current	1,212	1,180
Consortium relief	1,212	1,181
	<u>2,424</u>	<u>2,361</u>
Adjustments in respect of prior years	(13)	214
	<u>2,411</u>	<u>2,575</u>
<b>Deferred tax</b>		
Capital allowances in excess of depreciation	(10)	(3)
Other timing differences	3	(3)
	<u>2,404</u>	<u>2,569</u>
<b>Total tax on profit on ordinary activities</b>	<u>2,404</u>	<u>2,569</u>

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

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

	2004 £'000	2003 £'000
Profit on ordinary activities before tax	<u>7,237</u>	<u>7,006</u>
Tax on profit on ordinary activities at standard rate of 30% (2002 : 30%)	2,171	2,102
Depreciation for the year in excess of capital allowances	10	2
Expenses not deductible for tax purposes and other adjustments to accounting profit	233	505
Short term timing differences	(3)	(34)
Current tax charge for the year	<u>2,411</u>	<u>2,575</u>

There were no unprovided deferred taxes at the year end (2003 : £nil).

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)****9 Intangible Fixed Assets - Group**

	<b>Development Costs £'000</b>
<b>Cost</b>	
At 1 January 2004	1,088
Additions	69
Write-off	(73)
<b>At 31 December 2004</b>	<b><u>1,084</u></b>
<b>Amortisation</b>	
At 1 January 2004	83
Charge for the year	191
Write-off	(19)
<b>At 31 December 2004</b>	<b><u>255</u></b>
<b>Net book amount</b>	
<b>At 31 December 2004</b>	<b><u>829</u></b>
At 31 December 2003	<u>1,005</u>

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

**10 Tangible fixed assets - Group**

	<b>Computer Equipment £'000</b>	<b>Office Equipment £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
<b>At 1 January 2004 and 31 December 2004</b>	<u>93</u>	<u>5</u>	<u>98</u>
<b>Depreciation</b>			
At 1 January 2004	34	2	36
Charge for the year	31	1	32
<b>At 31 December 2004</b>	<u>65</u>	<u>3</u>	<u>68</u>
<b>Net book amount</b>			
<b>At 31 December 2004</b>	<u>28</u>	<u>2</u>	<u>30</u>
At 31 December 2003	<u>59</u>	<u>3</u>	<u>62</u>

**11 Investments**

The following are wholly owned subsidiaries of Xchanging Procurement Services (Holdco) Limited:

<b>Name</b>	<b>Country of Incorporation</b>	<b>Principal activity</b>
Xchanging Procurement Services Limited	United Kingdom	Support services

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

**12 Debtors**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>
<b>Amounts falling due within one year:</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade debtors	3,917	-	4,074	-
Amounts owed by group undertakings	-	5,041	3	3,435
Pre-contract costs (see note 13)	192	-	27	-
Other debtors	1,114	-	67	1
Prepayments and accrued income	7,500	-	2,656	-
Corporation tax	-	-	-	3
	<u>12,723</u>	<u>5,041</u>	<u>6,827</u>	<u>3,439</u>
<b>Due after more than one year:</b>				
Pre-contract costs (see note 13)	687	-	77	-
	<u>687</u>	<u>-</u>	<u>77</u>	<u>-</u>

Amounts owed by group undertakings are unsecured, interest free and have no fixed date of repayment.

**13 Pre-contract costs**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Net book value at 1 January	104	-	131	-
Pre-contracts costs deferred in year	829	-	-	-
	933	-	131	-
Amortisation charge for the year	(54)	-	(27)	-
Net book value at 31 December	<u>879</u>	<u>-</u>	<u>104</u>	<u>-</u>

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

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

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Trade creditors	3,918	-	3,663	-
Amounts owed to group undertakings	3,056	-	439	-
Taxation and social security	126	-	272	-
Other creditors	1,249	-	390	-
Corporation tax	611	-	323	-
Accruals and deferred income	3,681	8	2,410	-
Dividends payable	4,833	4,833	3,239	3,239
	<u>17,474</u>	<u>4,841</u>	<u>10,736</u>	<u>3,239</u>

Amounts owed to group undertakings are unsecured, interest free and are repayable on demand.

**15 Provisions for liabilities and charges**

	<b>Restructuring £'000</b>
At 1 January 2004	146
Utilised	<u>(146)</u>
<b>At 31 December 2004</b>	<u>-</u>

The provision relates to restructuring costs utilised in 2004.



**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

**16 Called up share capital**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised</b>				
200,000 ordinary shares of 10p each	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>
<b>Allotted, called up and fully paid</b>				
200,000 ordinary shares of 10p each	<u>20</u>	<u>20</u>	<u>20</u>	<u>20</u>

**17 Dividends**

	<b>Group</b>	<b>Company</b>	<b>Group</b>	<b>Company</b>
	<b>2004</b>	<b>2004</b>	<b>2003</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Final proposed: £24.16 (2003: £22.18) per 10p share	<u>4,833</u>	<u>4,833</u>	<u>4,437</u>	<u>4,437</u>
	<u>4,833</u>	<u>4,833</u>	<u>4,437</u>	<u>4,437</u>

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

**18 Reserves**

<b>Group</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>
At 1 January 2004	180	-
Retained profit for the year	-	-
<b>At 31 December 2004</b>	<b>180</b>	<b>-</b>

<b>Company</b>	<b>Share premium account £'000</b>	<b>Profit and loss account £'000</b>
At 1 January 2004	180	-
Retained profit for the financial year	-	-
<b>At 31 December 2004</b>	<b>180</b>	<b>-</b>

**19 Reconciliation of movements in equity shareholders' funds**

	<b>Group 2004 £'000</b>	<b>Company 2004 £'000</b>	<b>Group 2003 £'000</b>	<b>Company 2003 £'000</b>
Opening equity shareholders' funds	200	200	200	200
Profit/(loss) for the financial year	4,833	(6)	4,437	(6)
Equity dividend	(4,833)	6	(4,437)	6
<b>Closing equity shareholders' funds</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

**20 Reconciliation of net cash inflow to movement in net funds**

	2004 £'000	2003 £'000
<b>Increase/(decrease) in cash in the year</b>	<b>294</b>	<b>(967)</b>
Net funds at beginning of year	3,111	4,078
<b>Net funds at end of year</b>	<b><u>3,405</u></b>	<b><u>3,111</u></b>

**21 Reconciliation of movement in net funds**

	1 January 2004 £'000	Cash outflow £'000	31 December 2004 £'000
Cash	<u>3,111</u>	<u>294</u>	<u>3,405</u>

**22 Pensions**

Pension costs of £69,000 (2003: £70,000) relating to the BAE SYSTEMS plc defined benefit schemes, were charged in the profit and loss account in the year.

Certain employees participate in a defined contribution scheme operated by Xchanging Limited. Pension costs of £44,000 (2003: £32,000) were charged to the profit and loss account in the year.

There were no outstanding or prepaid contributions at the balance sheet date.

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)****23 Parent undertaking and ultimate controlling party**

The company is jointly owned by BAE SYSTEMS plc and XUK Holdco (No.2) Limited. Both companies are incorporated in the United Kingdom. XUK Holdco (No.2) Limited is a wholly owned subsidiary of Xchanging BV, a company incorporated in the Netherlands, in whose consolidated accounts the results of Xchanging Procurement Services (Holdco) Limited are included. These accounts are the smallest group into which the results of the company are consolidated and Xchanging BV is the largest group to consolidate these accounts.

The directors consider Xchanging BV to be the ultimate controlling party as a result of its operational and financial control of the company. Copies of the consolidated accounts of Xchanging BV may be obtained from Xchanging BV, Locatellikade 1, Parnassustoren, 1076 AZ, Amsterdam, Netherlands.

**24 Related party transactions**

During the year the group provided procurement services to BAE SYSTEMS plc, a related party through virtue of its 50% holding in the group. Revenue earned during the year, which was derived from the group's relationship with BAE SYSTEMS plc, amounted to £39,463,000 (2003: £38,181,000).

The group also provided procurement services to Xchanging Human Resources Services Limited (XHRS Limited), a related party by virtue of having the same ultimate controlling party. Revenue earned during the year amounted to £451,000 (2003 : £413,000)

Three of the directors are employees of BAE SYSTEMS plc. The emoluments of these directors were borne by BAE SYSTEMS plc and BAE SYSTEMS charged £50,000 (2003: £40,000) for the secondment of one director to the group during the financial year. The outstanding accrued balance at the year-end was £50,000 (2003 : £nil).

Xchanging Limited a related party by virtue of having the same ultimate controlling party, provided operating cost support to Xchanging Procurement Services Limited during the period amounting to £nil (2003 : £2,125,000).

Xchanging Procurement Services Limited have been charged £1,896,000 (2003 : £1,633,000) by Xchanging Limited for services supplied by Xchanging Limited personnel and recharges of various administrative costs. Xchanging Limited has charged Xchanging Procurement Services Limited software development royalties of £181,000 (2003 : £152,000). At 31 December 2004 Xchanging Procurement Services Limited owed £142,000 (2003 : £547,000) for these services and royalties.

**Notes to the financial statements  
for the year ended 31 December 2004 (continued)**

Xchanging Limited performed other management services and functions on behalf of the group. No recharge was made for these services, as it is not possible to accurately determine their financial value.

XHRS Limited charged Xchanging Procurement Services Limited £164,000 (2003 : £182,000) for rent and accommodation, £nil (2003 : £8,000) for IT costs and £105,000 (2003 : £18,000) for human resources services. At 31 December 2004 Xchanging Procurement Services Limited owed £52,000 (2003 : £31,000) for these services.

Xchanging SAS is a company based in France that is a related party of Xchanging Procurement Services Limited by virtue of having the same ultimate controlling party. Xchanging Procurement Services Limited have been charged £28,000 (2003 : £nil) by Xchanging SAS for services supplied by Xchanging SAS. At 31 December 2004 Xchanging Procurement Services Limited owed £27,000 (2003 : £nil) to Xchanging SAS in respect of these services.

Xchanging GmbH is a company based in Germany that is a related party of Xchanging Procurement Services Limited by virtue of having the same ultimate controlling party. Xchanging Procurement Services Limited have been charged £2,000 (2003 : £nil) by Xchanging GmbH for services supplied by Xchanging GmbH. At 31 December 2004 Xchanging Procurement Services Limited owed £nil (2003 : £nil) to Xchanging GmbH in respect of these services.

Xchanging Resourcing Services Limited is a related party of Xchanging Procurement Services Limited by virtue of having the same ultimate controlling party. Xchanging Procurement Services Limited have been charged £38,000 (2003 : £nil) by Xchanging Resourcing Services Limited for services supplied by Xchanging Resourcing Services Limited personnel. At 31 December 2004 Xchanging Procurement Services Limited owed £36,000 (2003 : £nil) to Xchanging Resourcing Services Limited in respect of these services.

Xchanging Ins-sure Services Limited is a related party of Xchanging Procurement Services Limited by virtue of having the same ultimate controlling party. Xchanging Procurement Services Limited have been charged £54,000 (2003 : £nil) by Xchanging Ins-sure Services Limited for accommodation costs. At 31 December 2004 Xchanging Procurement Services Limited owed £nil (2003 : £nil) to Xchanging Ins-sure Services Limited in respect of these services.