



esp2office Limited
Annual Report and Accounts
For the year ended 31 December 2007



esp2office Limited
Registered number 04283047

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Company Details

Directors

S R Moate (Chairman)
M J Goddard

Company Secretary

D Rodwell

Auditors

PricewaterhouseCoopers LLP
The Atrium
St Georges Street
Norwich
NR3 1AG

Solicitors

Macfarlanes LLP
20 Cursitor Street
London
EC4A 1LT

Registered office

St Crispins
Duke Street
Norwich
NR3 1PD

Registered in England and Wales

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Directors' Report

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2007

Business review and principal activities

The Company is a subsidiary of office2office plc. The Company's principal activity is the supply of office and business products.

The profit/(loss) for the year amounted to £27,000 (2006: loss of £156,000) with revenue of £2,028,000 (2006: £2,102,000).

Dividends

The Directors do not propose a dividend (2006: £Nil).

Future outlook

The Directors are confident that cost saving initiatives, together with sales growth, will result in further profit growth.

Principal risks and uncertainties

The Directors consider that the principal risks (including financial risks) and uncertainties are integrated with the principal risks of the office2office plc group ("the Group") and are not managed separately. The principal risks and uncertainties of the office2office plc group, which include those of the Company, are discussed within the "Financial Review" in the Annual Report and Accounts of office2office plc which does not form part of this report.

Key performance indicators ("KPIs")

The Directors of the Group manage the Group's operations on a consolidated basis. For this reason, the Company's Directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance and position of the Group, which includes the Company, is discussed within the "Financial Review" in the Annual Report and Accounts of office2office plc which does not form part of this report.

Directors

The following Directors held office during the year -

D J Callear (appointed 1 February 2007, resigned 27 November 2007)
M A Cunningham (resigned 27 November 2007)
M J Goddard (appointed 27 November 2007)
S R Moate (appointed 27 November 2007)
R C Peck (resigned 1 February 2007)

Employee involvement

The Company has a policy of providing employees with information through corporate newsletters and regular meetings, which are held between management and employees to allow a free flow of information and ideas.

The Company operates a variety of schemes to allow employees to participate directly in the success of the business.

Directors' Report

Equal opportunities

The Company is fully committed to a policy that provides all employees with equality of opportunity, irrespective of background, for employment, training, career development and selection on the basis of ability, qualifications and suitability for the job. Executive management, managers and employees are required to promote equality of opportunity and to take full account of the policy in their day-to-day work. The aim is to recruit the best staff in the industry, and the Company is committed to the principle of maximising every employee's potential. In selecting, training and promoting staff, the Company has to take account of the physically demanding nature of much of its work. Employees who become disabled will be retained and re-trained, where possible.

Environmental policy

The Company ensures that, in satisfying its customers' requirements, both the goods and services supplied and its own housekeeping comply with legislation and best practice. The Company continually reviews its environmental performance across the business. The Group's corporate social responsibility approach is set out in the Annual Report and Accounts of office2office plc, which does not form part of this report.

Donations

No donations were made to any charitable or political organisation in the year (2006 nil).

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 of the profit or loss of the Company for that period. Under that law the Directors have prepared the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 that the financial statements comply with IFRSs as adopted by the European Union, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy and, 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.

Statement of disclosure of information to auditors

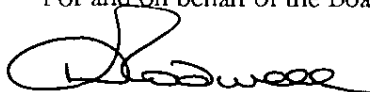
So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Report

Auditors

A resolution to re-appoint PricewaterhouseCoopers LLP as the Company's auditors will be put to the forthcoming Annual General Meeting

For and on behalf of the Board



D Rodwell

Company Secretary

Date 30 October 2008

Report of the Independent Auditors

We have audited the financial statements of esp2office Limited for the year ended 31 December 2007 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Shareholders' Equity, the 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 International Financial Reporting Standards (IFRSs) as adopted by the European Union 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). 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Director's Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

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

Report of the Independent Auditors

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Company's affairs as at 31 December 2007 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Norwich

Date 30 October 2008

Income Statement
for the year ended 31 December 2007

	Note	2007 £000	2006** £000
Revenue		2,028	2,102
Cost of sales		(1,264)	(1,329)
Gross profit		764	773
Distribution costs		(224)	(228)
Administrative expenses		(514)	(691)
Profit/(loss) before income tax	3	26	(146)
Analysed as			
Underlying profit/(loss) before income tax*		166	(128)
Share option charges	15	-	(18)
Exceptional and non-recurring costs	4	(140)	-
Profit/(loss) before income tax		26	(146)
Income tax expense	7	1	(10)
Profit/(loss) for the year		27	(156)

* Profit before income tax, exceptional and non-recurring costs and share option charges

** Restated to reflect the disclosure of the analysis of underlying profit before income tax, share option charges and exceptional and non-recurring costs

All amounts relate to continuing operations

Balance Sheet
 as at 31 December 2007

	Note	2007 £000	2006 £000
Assets			
Non-current assets			
Property, plant and equipment	8	-	23
Deferred income tax asset	9	20	19
		20	42
Current assets			
Trade and other receivables	10	-	4
Liabilities			
Current liabilities			
Trade and other payables	11	(1,010)	(1,063)
Net current liabilities		(1,010)	(1,059)
Net liabilities		(990)	(1,017)
Equity			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	14	-	-
Retained earnings	16	(990)	(1,017)
Total equity		(990)	(1,017)

The financial statements comprising the income statement, the balance sheet, the statement of changes in equity and the cash flow statement were approved for issue by the Board of Directors on 30 October 2008

M J Goddard
 Director



Statement of Changes in Equity
for the year ended 31 December 2007

	2007 £000	2006 £000
Profit for the year	27	(156)
Total recognised income for the year	27	(156)
Employee share options		
- value of employee services	-	17
- deferred tax on share options	-	(1)
	27	(140)
Balance at 1 January	(1,017)	(877)
Balance at 31 December	(990)	(1,017)

Cash Flow Statement
for the year ended 31 December 2007

	Notes	2007 £000	2006 £000
Cash flows from operating activities			
Cash generated from operations	17	-	24
Net cash generated from operating activities		-	24
Cash flows from investing activities			
Purchase of property, plant and equipment		-	(24)
Net cash used in investing activities		-	(24)
Net movements in cash and cash equivalents		-	-
Cash and cash equivalents at 1 January		-	-
Cash and cash equivalents at 31 December		-	-

Principal Accounting Policies for the year ended 31 December 2007

Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The financial statements of esp2office Limited ("the Company") have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

The financial statements have been prepared on a going concern basis, which assumes that the Company will continue in operational existence for the foreseeable future. In respect of this, esp2office plc and its subsidiaries have confirmed in writing that they are committed to providing the necessary level of financial support for a period of at least 12 months from the date of approval of the Company's financial statements for the year ended 31 December 2007.

Standards, amendments and interpretations effective in 2007

- IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Company's financial statements.
- IFRS 7, 'Financial Instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Company's financial instruments, or the disclosures relating to taxation and trade and other payables.
- Amendment to IFRS 1 "First time adoption of IFRS" and IAS 27 "Consolidated and separate financial statements". The amendment allows first-time adopters of IFRS to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. This is not relevant to the Company as it has already adopted IFRS.

Standards and interpretations to existing standards that are not yet effective and have not been early adopted

The following standards and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods, but which the Company has not early adopted:

- IFRS 8, 'Operating Segments'. This standard is effective for accounting periods beginning on or after 1 January 2009 and introduces new rules on the disclosure of operating results by business segment. The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting procedures. The Company will apply IFRS 8 from 1 January 2009. The resultant impact is still being assessed by management, but it is not expected, based upon the present operations of the Company, that there will be any significant impact.
- IAS 23, 'Borrowing costs' as revised. This standard is effective for accounting periods beginning on or after 1 January 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The impact of IAS 23 is dependent upon the extent of qualifying expenditure from 1 July 2009 onwards and hence cannot be quantified at the moment.
- IFRS 3, 'Business combinations' as revised. This standard is applicable to business combinations occurring in accounting periods beginning on or after 1 July 2009. This standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value through income. Goodwill may be calculated based on the parent's share of net assets or it may include goodwill related to the minority interest. All transaction costs will be expensed.
- IFRIC 11, 'IFRS 2 – Group and Treasury Share Transactions'. IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should

Principal Accounting Policies for the year ended 31 December 2007

be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. The adoption of IFRIC 11 will represent a change in accounting policy, and the comparative figures in the financial statements for the year ended 31 December 2008 will be adjusted accordingly, with a debit entry being recognised in the profit and loss reserve and a corresponding credit entry being recognised as a capital contribution reserve.

Standards and interpretations to existing standards that are not yet effective and not relevant for the Company's operations

The following interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning on or after 1 January 2008 or later periods, but are not relevant for the Company's operations:

- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' (effective from 1 January 2008). IFRIC 14 provides guidance on assessing the limit in IAS 19, 'Employee benefits' on the amount of the defined benefit plan surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This standard does not currently have any impact on the Company's financial statements.
- IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not currently have any impact on the Company's financial statements.
- IFRIC 12, 'Service Concession Arrangements'. IFRIC 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services, for example, under PFI contracts. This is not relevant to the Company as it does not enter into such contracts.
- IFRIC 13, 'Customer loyalty programmes'. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer should be allocated between the components of the arrangement in proportion to their fair values. This is not relevant to the Company as it does not operate, or have plans to operate, any such loyalty schemes.
- IAS 27, 'Consolidated and separate financial statements' as revised. This standard requires the effects of all transactions with non-controlling (minority) interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. This standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. This is not relevant to the Company as it does not currently have any non-controlling interests.
- IFRIC 15 "Agreements for construction of real estates". The interpretation clarifies which standard should be applied to particular transactions pertaining to construction of real estates. This is not relevant to the Company as it does not have such transactions.
- IFRIC 16 "Hedges of a net investment in a foreign operation". The interpretation provides clarification as to the treatment of net investment hedging in a foreign operation. This is not relevant to the Company as it does not have such operations.
- Amendment to IAS 39 "Financial Instruments: Recognition and measurement" on eligible hedged items. The amendment introduces two significant changes. It prohibits designating inflation as a hedgeable component of a fixed rate debt. It also prohibits including time value in the one-sided hedged risk when designating options as hedges. This is not relevant to the Company as it does not have such transactions.
- Amendment to IFRS 2 "Share based payments". The amendment considers vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The impact on the Company in respect of this is yet to be determined.
- Revised IAS 1 "Presentation of financial statements". The new standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The revised IAS 1 also states that entities making restatements or reclassifications of comparative information will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The impact on the Company in respect of this is yet to be determined.

Principal Accounting Policies for the year ended 31 December 2007

Changes in accounting policy - exceptional and non-recurring costs

During the period, the Company has adopted an accounting policy in respect of the classification of exceptional and non-recurring costs. The effect of this change in accounting policy was that £140,000 (2006: £Nil) of administrative expenses were classified as 'exceptional and non-recurring costs' and presented separately on the face of the income statement. There is no effect on profit or net assets for the period presented. There was no effect on comparative amounts.

Exceptional and non-recurring costs are those significant items which are separately disclosed by virtue of their size or incidence to enable a full understanding of the Company's financial performance. Transactions which may give rise to exceptional and non-recurring costs are principally restructuring related costs and costs in respect of key management changes.

Revenue

Revenue comprises the fair value of sales to external customers, exclusive of VAT. Revenue is stated after deducting rebates, returns and other similar discounts. Revenue is recognised when the significant risks and rewards of ownership are transferred to a customer, which occurs on delivery of goods.

Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those operating in other economic environments.

Based on risks and returns the Directors consider that the primary reporting format is by business segment. The Directors consider that there is only one business segment, being the supply of office and business products. Therefore the disclosures for the primary segment have already been given in the financial statements. The secondary reporting format is by geographical analysis by origin and destination. The Company operates in the United Kingdom only.

Foreign currency translation

Foreign currency transactions are initially recorded at the exchange rate ruling at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period end rates of exchange are recognised in the income statement.

Impairment of assets

Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. Impairment losses in respect of goodwill are not reversed.

Principal Accounting Policies for the year ended 31 December 2007

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical costs include expenditure that is directly attributable to the acquisition of the items. The assets' residual values and useful lives are reviewed annually for impairment, and adjusted as appropriate. Depreciation commences in the month that the assets are fully installed and commissioned and is provided on a straight line basis at rates calculated to write off the cost, less estimated residual value, of each asset over its expected useful life, as follows:

Short leasehold land and buildings - over the lease term

Plant and machinery - over 4 to 15 years

Office equipment - over 3 to 10 years

Operating leases

Leases in which a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the lease.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and deposits with banks that have a maturity of three months or less from the date of inception.

Retirement benefit costs

The Company makes contributions to a group personal pension scheme and employee personal pension schemes. The costs are charged to the income statement in the period to which they relate.

Share-based compensation

The office2office plc group ("the Group"), of which the Company is a subsidiary, operates a number of share based compensation schemes including a SAYE scheme which is open to all employees. The fair value of the employee services received in exchange for the grant of options (approximated by reference to the fair value of the option granted) is recognised as an expense. The fair value of the option is measured at grant date and spread over the vesting period through the income statement with a corresponding increase in equity. The fair value of the share options and awards are measured using an option-pricing model taking into account the terms and conditions of the individual schemes. The fair value of options awarded under schemes with market based performance conditions is estimated using a Monte-Carlo model. The fair value of options awarded under schemes with non-market based performance conditions is estimated using a Black-Scholes model.

The Company makes charges to the income statement for any potential employer's National Insurance liability on options granted, based on the Company's best estimate of the fair value of the options granted at the balance sheet date and spread over the vesting period of the option.

The fair value of the options granted under the various schemes has been accounted for in the Group's financial statements. These amounts are recharged to Group companies through the inter-company accounts in both current and prior years.

At each balance sheet date, the Company revises its estimate of the number of options that are going to vest. The Company recognises the impact of any revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds on exercise of options, net of any directly attributable transaction costs, are credited to share capital and share premium.

Principal Accounting Policies for the year ended 31 December 2007

Current and deferred income tax

The tax charge for the period comprises both current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the period and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided in full using the balance sheet liability method on temporary differences between the tax bases of assets and liabilities and their carrying value for accounting purposes.

Deferred tax is determined on a non-discounted basis using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or deferred tax liability is settled.

Deferred tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Where the intrinsic value of a share option exceeds the fair value, the corresponding deferred tax on the excess is recognised directly in equity.

A deferred tax asset is recognised only to the extent that it is probable that sufficient taxable profit will be available to utilise the temporary difference.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

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

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

Dividends

Distributions to equity holders are disclosed as a component of the movement in shareholders' equity. A liability is recorded for a final dividend when the dividend is approved by the Company's shareholders. Interim dividends are recognised in the period they are paid.

Use of non-gaap profit measures

The Directors believe that the use of underlying profit before income tax provides a clearer understanding of the performance of the Company.

Underlying profit is calculated as follows:

	2007 £000	2006 £000
Profit before income tax	26	(146)
Less:		
Share option charges	-	18
Exceptional and non-recurring costs	140	-
Underlying profit before income tax	<u>166</u>	<u>(128)</u>

Notes to the Financial Statements for the year ended 31 December 2007

1. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

(a) Market risk

Interest rate risk

The Company has no interest-bearing assets or borrowings and as such has limited sensitivity to movements in interest rates.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from transactions with third party customers.

Internally, customers are rated according to financial position, history of trading and other factors. Individual credit limits are based on internal and external ratings, in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Liquidity risk is managed on a group basis.

The table below analyses the Company's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date.

At 31 December 2007	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	1,010	-	-	-
At 31 December 2006	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	1,063	-	-	-

The objectives and policies on the use of financial instruments, including derivatives, can be found within the "Financial Review" in the Annual Report and Accounts of office2office plc under the heading 'Financial risks and treasury policies', which do not form part of this report. Amounts dealt with in the remainder of this note exclude short-term debtors and creditors.

Fair values of financial instruments

The fair value of financial assets and liabilities is not materially different to their book value due to the short term maturity of the instruments.

Currency exposure and hedges

The Company did not have a material profit and loss account exposure to foreign exchange gains or losses on monetary assets and liabilities denominated in foreign currencies at 31 December 2007 and has not used any instruments to hedge foreign currency transactions.

Embedded derivatives

Management have undertaken a review of the Company for embedded derivatives and none were found (2006: nil).

Notes to the Financial Statements for the year ended 31 December 2007

1. Financial risk management (continued)

Capital risk management

Capital risk management is managed on a group basis. The Group's policy is to maintain a strong capital base, defined as facilities plus total shareholder's equity, so as to maintain investor, creditor and market confidence and to sustain future development of the business. Within this overall policy, the Group seeks to maintain an optimum capital structure by a mixture of debt and retained earnings. Funding needs are reviewed periodically and also each time a significant acquisition is made. A number of factors are considered which include the net debt/EBITDA ratio, future funding needs (usually potential acquisitions) and Group banking arrangements. There were no changes to the Group's approach to capital management during the year.

The primary source of funding for the Group is bank borrowings.

2. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Income tax

The Company is subject to income tax in the United Kingdom. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Assets and liabilities

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3. Expenses by nature

	2007 £000	2006 £000
Inventories expensed	1,264	1,329
Employee benefit expense (note 5a)	437	517
Depreciation of tangible fixed assets		
- owned	23	8
Exceptional and non-recurring costs (note 4)	140	-
Operating lease payments		
- plant and machinery	12	17
Other operating costs	126	377
Total cost of sales, distribution costs and administrative expenses	2,002	2,248

Notes to the Financial Statements for the year ended 31 December 2007

4. Exceptional and non-recurring costs

The amounts recognised as exceptional and non-recurring costs are as follows

	2007 £000	2006 £000
Compensation payments and executive recruitment costs	140	-

Compensation payments relate to amounts paid to ex-employees of the Company. These costs are considered to be exceptional in nature and not reflective of the underlying operating performance of the Company.

5a Employee benefit expense

	2007 £000	2006 £000
Wages and salaries	382	438
Social security costs	42	50
Pension costs	13	11
Share options granted to Directors and employees	-	18
	437	517

None of the Directors or key management received any remuneration from the Company but were remunerated by other office2office plc Group companies for their services to the Group as a whole, as disclosed in the Group's consolidated financial statements.

No recharge for any of their services was made to the Company and it is not practicable to apportion their total remuneration for these services.

Two Directors are members of defined contribution pension schemes (2006: two).

5b Average number of people employed

	2007 No	2006 No
Average number of people (including Directors) employed		
Sales and marketing	9	17

6. Auditor remuneration

Services provided by the Company's auditor and its associates

During the year the Company obtained the following services from the Company's auditor and its associates:

	2007 £000	2006 £000
Fees payable to Company's auditor for the audit of the Company	3	3

Notes to the Financial Statements for the year ended 31 December 2007

7. Income tax expense

	2007 £000	2006 £000
Current tax		
United Kingdom corporation tax at 30% (2006 30%)	-	-
Deferred tax		
Origination and reversal of timing differences (see Note 9)	2	(10)
Impact of change in United Kingdom tax rate	(1)	-
	1	-
	1	(10)

Tax on items charged to equity

	2007 £000	2006 £000
Deferred tax charge on share options (see Note 9)	-	(1)

Factors affecting tax charge for the year

The Company tax charge for the year differs from the standard rate of corporation tax of 30%. The differences are explained below

	2007 £000	2006 £000
Profit/(loss) before income tax	26	(146)
Income tax at the standard rate of UK corporation tax of 30% (2006 30%)	8	(44)
Tax effects (at 30%) of		
Expenses not deductible	3	-
Other permanent differences	2	-
Group relief without charge	-	54
Losses brought forward not previously recognised	(13)	-
Impact of change in United Kingdom tax rate	(1)	-
Total tax charge for the year	(1)	10

8. Property, plant and equipment

	Short leasehold land & buildings £000	Plant & machinery £000	Office equipment £000	Total £000
2007				
Cost				
As at 1 January 2007	17	10	75	102
Transfers	10	-	(10)	-
As at 31 December 2007	27	-	65	102
Accumulated depreciation				
As at 1 January 2007	(16)	(10)	(53)	(79)
Charge for the year	(11)	-	(12)	(23)
As at 31 December 2007	(27)	(10)	(65)	(102)
Net book value				
As at 31 December 2007	-	-	-	-

Notes to the Financial Statements for the year ended 31 December 2007

8. Property, plant and equipment (continued)

2006	Short leasehold land & buildings £000	Plant & machinery £000	Office equipment £000	Total £000
Cost				
As at 1 January 2006	17	10	51	78
Additions at cost	-	-	24	24
As at 31 December 2006	17	10	75	102
Accumulated depreciation				
As at 1 January 2006	(12)	(10)	(49)	(71)
Charge for the year	(4)	-	(4)	(8)
As at 31 December 2006	(16)	(10)	(53)	(79)
Net book value				
As at 31 December 2006	1	-	22	23

9 Deferred income tax asset

The deferred income tax asset recognised in the financial statements is as follows

	2007 £000	2006 £000
Tax effect of timing differences		
Depreciation over tax allowances	11	9
Unutilised losses	9	10
At 31 December	20	19
At 1 January	19	30
Credited/(charged) to the income statement	2	(10)
Charged to the income statement - tax rate change	(1)	-
Credited to equity (Note 7)	-	(1)
At 31 December	20	19

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

During the year, as a result of changes in UK Corporation Tax rates which were effective from 1 April 2008, deferred tax balances have been remeasured

Deferred tax relating to timing differences which are expected to reverse before 1 April 2008 is measured at 30% and deferred tax relating to timing differences which are expected to reverse after 1 April 2008 are measured at 28%

The deferred income tax asset is estimated to be recoverable as follows

	2007 £000	2006 £000
Deferred tax assets		
- to be recovered after more than 1 year	17	9
- to be recovered within 1 year	3	10
	20	19

Deferred income tax assets and liabilities are only offset where there is a legally enforceable right to offset and there is an intention to settle the balances net.

Notes to the Financial Statements for the year ended 31 December 2007

9. Deferred income tax asset (continued)

The movements in deferred tax assets during the period are shown below

Deferred income tax assets	Depreciation over tax allowances £000	Unutilised losses £000	Total £000
At 1 January 2007	9	10	19
Credited /(charged) to income statement	3	(1)	2
Credited /(charged) to income statement - tax rate change	(1)	-	(1)
At 31 December 2007	11	9	20

10. Trade and other receivables

	2007 £000	2006 £000
Prepayments and accrued income	-	4

All of the above amounts are due within one year

There is no difference between the amounts disclosed above and their fair values

The carrying amounts of trade and other receivables are denominated in Sterling

11. Trade and other payables

	2007 £000	2006 £000
Accrued expenses and deferred income	(18)	(34)
Payables to related parties	(992)	(1,029)
	(1,010)	(1,063)

12. Operating lease commitments

	Other 2007 £000	2006 £000
Commitments under non-cancellable operating leases expiring		
Within one year	-	6
Between two and five years	-	3
	-	9

Notes to the Financial Statements for the year ended 31 December 2007

13. Retirement benefits

The Company contributes to a group personal pension arrangement and to employees' own personal pension arrangements. In the year the contribution due was £13,000 (2006 £11,000)

14 Share capital

Authorised	2007		2006	
	No	£	No	£
Ordinary shares of £1 each	1,000	1,000	1,000	1,000

Allotted, called up and fully paid	2007		2006	
	No	£	No	£
Ordinary shares of £1 each	1	1	1	1

15. Options over the shares of the ultimate parent undertaking

	Number 1 Jan 07	Number granted	Number exercised	Number lapsed	Number 31 Dec 07	Exercise price per share	Exercisable from	Expiry date
SAYE scheme								
Date granted								
October 2004 (3yr)	3,312	-	-	-	3,312	171 6p	01 12 07	31 05 08
October 2005 (3yr)	1,666	-	-	(1,666)	-	224 4p	11 11 08	11 05 09
October 2005 (5yr)	1,434	-	-	(1,434)	-	224 4p	11 11 10	11 05 11
	6,412	-	-	(3,100)	3,312			

At 31 December 2007 there were 2 members of the Save-As-You-Earn (SAYE) scheme, with average holdings of 1,656 shares

The SAYE scheme was first introduced on October 2004 and a second invitation was made in 2005. The exercise price was at 20% discount of the closing mid-market price on date of invitation for both years. The schemes have either a three or five year vesting period.

The exercise price of the granted options is equal to the market price at the date of grant which has been discounted to reflect the benefit granted to the employee.

The IFRS 2 and associated national insurance costs, before tax, incurred in relation to the above schemes were as follows:

	2007 IFRS2 £000	2007 NI £000	2006 IFRS2 £000	2006 NI £000
Senior managers scheme				
Date granted				
October 2004	-	-	16	1
SAYE scheme				
Date granted				
October 2004 (3yr)	-	-	1	-
October 2005 (3yr)	-	-	-	-
October 2005 (5yr)	-	-	-	-
	-	-	17	1

Notes to the Financial Statements for the year ended 31 December 2007

15 Options over the shares of the ultimate parent undertaking (continued)

The following valuation assumptions have been applied

	2007	2006
SAYE 3 year scheme – Oct 2004 option value information		
Fair value per option*	£0.61	£0.61
Valuation assumptions		
Expected option term	3.25 years	3.25 years
Expected volatility	30.2%	30.2%
Expected dividend yield	3.9%	3.9%
Risk free interest rate	4.69%	4.69%

* Estimated using Black-Scholes option pricing method

Expected volatility was determined by reference to historic share price information of similar companies

16. Reserves

	Retained earnings £000
Balance at 1 January 2006	(877)
Profit for the year	(156)
Employee share options	
- value of employee services	17
- deferred tax on share options	(1)
Balance at 31 December 2006	(1,017)
Profit for the year	27
Balance at 31 December 2007	(990)

17 Cash generated from operations

	2007 £000	2006 £000
Profit before income tax	26	(156)
Adjustments for		
Depreciation charge	23	8
Decrease in trade and other receivables	4	6
Decrease in trade payables and provisions	(53)	139
Total net cash inflow from operations	-	3

18 Capital commitments

There are no amounts contracted for but not provided in the financial statements (2006 nil)

Notes to the Financial Statements for the year ended 31 December 2007

19. Related parties

esp2office Limited is a subsidiary of office2office (UK) plc, which is a subsidiary of office2office plc

Related party transactions made during the year, relate to cash transferred/received between subsidiary companies of office2office (UK) plc with no interest charges

As at the year end, the following balances were due from subsidiary companies of office2office (UK) plc

	2007	2006
	£000	£000
Banner Business Supplies Ltd	992	1,029