



RWS GROUP

# Annual Report **2006**



**UK GERMANY**  
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2004

**RWS GROUP**



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## Executive Chairman's Statement

I am delighted to report another year of strong and resilient organic growth from RWS. In its third year as a public company it has established new records for both sales and profits.

### ■ Business Overview

RWS is a leading provider of intellectual property support services and high level technical, legal and financial translation services. The core business – patent translation – is the largest of its kind in Europe, translating over 50,000 patents and intellectual property related documents each year. It serves a multinational blue chip client base drawn from Europe, North America and Japan. Clients will be active filers of patents in the medical, pharmaceutical, chemical, aerospace, defence, automotive, electronics and telecoms industries, as well as patent agents working on behalf of similar clients and the leading intellectual property organisations. The Group comprises two divisions, the Translation division providing patent and document translation, filing and localization services in the UK, US, Japan and Europe, and the Information division, which offers a comprehensive range of patent search retrieval and monitoring services and has recently launched a comprehensive patent database service searchable by subscribers, known as PatBase.

### ■ Strategy

The Group's strategy is focused upon organic growth of its market-leading positions in the delivery of translation and search services. Growth will be achieved by leveraging RWS' size and reputation for quality with major corporates in a highly fragmented, largely freelance industry. Acquisitions will only be pursued if they have demonstrable growth prospects and enhance shareholder value.

### ■ Results

Group sales and profit for the year were both at record levels. Sales grew by 13.7% to £40.8 million; profit before tax and goodwill amortization advanced by 21.5% to £9.04 million. Basic earnings per share advanced by 24.4% to 16.8p.

This strong performance was driven by our success in adding significant new multinational clients whilst retaining the work of existing customers despite significant merger activity.

Against a background of continued underlying growth in patent applications filed (European Patent Office 2005 annual report confirmed 8% growth), RWS delivered a resilient performance in its core patent translations activity.

The February 2005 acquisition – Eclipse Translations – based in the North East, far exceeded our expectations, delivered excellent results and renewed its two important UK Government contracts.

### ■ Dividend

The Board has recommended a final dividend of 5.35p per share, which, together with the interim payment, will result in a total dividend for the year of 7.2p per share, 20% more than in 2005. The proposed total dividend is more than twice covered by after tax profits. Subject to shareholder approval at the Annual General Meeting, the final dividend will be paid on 16 February 2007 to all shareholders on the register at 19 January 2007.

### ■ Operating Review

**Translations** Patent translations account for 80% of the Group's revenues and achieved further good progress in a more challenging environment. Whilst the numbers of granted patents rose to new record levels, the flow of those relating to our largest client fluctuated in the first half of the year and led to a substantial shortfall against prior trends



(since restored). It is a measure of the resilience of our business that we were able to compensate for this by winning several new clients who delivered considerable volumes of business. The RWS offering is perceived as a high quality, convenient and cost-effective solution to our clients' requirement for comprehensive geographical patent protection.

In Japan, we have enlarged our office space and staff but the continued weakness of the yen has held back the performance in sterling terms. The Japanese model will be repeated in Beijing where, after significant delays, we have obtained a business licence and our first important European client has signed up to our Chinese service effective January 2007.

Our commercial and technical translation activities, which include Eclipse and account for 14% of sales, have enjoyed their most successful year to date despite encountering heavy competition. We seek to distance this business from the cheap commoditised end of the market, preferring to position ourselves as a high quality service provider for larger, more difficult assignments. Where possible, we will also seek preferred supplier status.

**Information** The Information division now accounts for only 6% of group sales but enjoys superior margins to the rest of the business. It is the largest European provider of patent search, patent watch and document services but suffers from the search budget constraints imposed upon most multinational corporates. As a result, sales did not advance in 2005-06.

However, this division has developed a new database product (PatBase) in partnership with an intellectual property software business and this subscription-based initiative experienced significant interest, contributing excellent margins and lifting the overall performance of the division. We have high growth expectations for PatBase in 2006/07.

## ■ Financial Review

This year has seen an already sound financial base strengthen considerably with net assets now exceeding £20 million, including net cash of £15.9 million. Free cash inflow was £5.7 million and overall net cash increased by £4.0 million. RWS normally has low capital expenditure (principally I.T. related costs and premises) and the 2005/06 expenditure totalled £208,000. Despite the growth in the overall business, the additional working capital requirement was only £831,000, underpinned by good management of receivables.

The Group achieved further margin improvement with profit before tax and goodwill amortization rising from 20.7% to 22.1%. This was accounted for by the excellent margins on PatBase and tight control of translation costs, both internal and freelance.

## ■ Principal Risks

The Directors believe that the principal risks to the business arise from the provision of the Group's services, in a mismatch between currencies (i.e. sales are predominantly in euros, whilst costs are mainly incurred in sterling) and in regulatory changes in patent translation requirements in Europe.

As regards the provision of services, RWS has long been ISO-certified and has exhaustive procedures in place to minimize the risk of error. Additionally, the Group carries professional indemnity insurance.

The currency risk is normally addressed via hedging operations. In 2005/06 much of the euro and dollar exposure was hedged but at present the Group has no arrangements in place as it anticipates that sterling will weaken, particularly against the euro.

At the time RWS was floated on AIM in November 2003 two regulatory initiatives were identified as threats to our patent translation activities. The first - a European Community Patent - was decisively rejected in 2005, although the Commission is taking soundings as to its possible renaissance. The second - the London Agreement - has now been ratified by seven member states, but crucially, not yet by France. We are given to understand that opposition to French ratification has weakened, and ratification is no longer constitutionally barred, but given the up-coming presidential and parliamentary elections in France no movement is to be expected in the 2006/07 financial year. The Board is monitoring developments in France carefully and has plans well in hand to limit any material financial downside were the agreement to be implemented.

### ■ People

I would like to acknowledge the contribution of my Board colleagues and all of the staff throughout the Group in delivering such an excellent set of results and ensuring the enhancement of RWS' reputation throughout its customer base.

### ■ Outlook

Our markets continue to expand, driven by the urgent need to protect intellectual property in a shrinking world. Globalisation and the expansion of the European Union add further macro drivers to our growth opportunities.

Our financial position is strong, our forward sales visibility is reassuring and we can be confident that we will grow further in 2006-07 and that the dividend will continue to advance, in line with our progressive dividend policy.

**Andrew Brode** Executive Chairman

11 December 2006



## Board of Directors at 30 September 2006

### **A S Brode (66)**

Executive Chairman

Member of the Audit Committee and Remuneration Committee

Appointed as a Director 11 April 2000.

Founder of Bybrook and led the management buy in of the RWS Group. A substantial shareholder in the Company.

Non-Executive Director of Vitesse Media plc and other private equity financed media companies.

### **Mrs E A Lucas (50)**

Chief Executive Officer of RWS Translation Division

Appointed as a Director 11 November 2003.

Joined RWS Group in 1977, Managing Director of Translation Division from 1992 and Chief Executive Officer from 1995.

### **M A McCarthy (59)**

Finance Director and Company Secretary

Appointed as a Director and Company Secretary 11 November 2003.

In 2000 joined RWS Group as Finance Director. 1988 to 1999 with the RAC in a senior financial role.

### **J C Ivey (64)**

Senior Non-Executive Director

Chairman of the Remuneration Committee and Member of the Audit Committee

Appointed as a Director 11 November 2003.

Non-Executive Chairman of Derwent Valley Holdings plc.

### **P Mountford (49)**

Non-Executive Director

Chairman of the Audit Committee and Member of the Remuneration Committee

Appointed as a Director 11 April 2000.

Joint founder of Bradmount Investments Limited, a private investment company, and a director of a number of other private companies.

### **Registered office**

8 Baker Street, London W1U 3LL

### **Company registration number**

3002645

The Directors present their report together with the audited Financial Statements for the year ended 30 September 2006.

### ■ Results and Dividends

The Group Profit and Loss Account is set out on page 17 and shows a profit for the year.

The profit before goodwill amortization and taxation was £9.04 million (2005: £7.44 million) and with a goodwill charge of £0.6 million the resulting profit before tax was £8.4 million. The tax charge of £2.5 million represented a rate of 27.8% on the profit before goodwill compared to 30.4% in 2005.

The Directors recommend a final dividend of 5.35 pence per Ordinary share to be paid on the 16 February 2007 to Shareholders on the register at 19 January 2007, which, together with the dividend of 1.85 pence paid in July 2006, makes a total dividend for the year of 7.20 pence (2005: 6.00 pence). The final dividend in accordance with Financial Reporting Standard 21 will be reflected in the financial statements for the year ending 30 September 2007.

### ■ Principal Activities

The Company's principal activity is the business of holding investments in trading subsidiaries, with a view to earning a profit to be distributed to Shareholders. The principal activities of subsidiary undertakings are intellectual property support services (patent translations and technical searches) to the pharmaceutical, chemical, medical, telecoms, aerospace, defence and automotive industries. The Group also provides specialist technical, legal and financial translation services to a number of areas of industry outside the patent arena.

### ■ Business Performance and Risk

The review of the business, operations, principal risks and outlook are dealt with in the Executive Chairman's Statement on pages 2 to 4.

### ■ Financial Instruments

Details of the use of financial instruments by the Group are contained in note 18 of the financial statements.

### ■ Political and Charitable Contributions

Financial contributions to charities and good causes during the year amounted to £5,000. There were no political donations.

### ■ Post Balance Sheet Events

No significant change has occurred since the 30 September 2006.

### ■ Directors

Details of members of the Board at 30 September 2006 are set out on page 5.

The interests of directors during the year in shares and share options are set out on pages 11 and 12 in the Directors' Remuneration Report. There have been no changes to the shareholdings of Directors between 30 September 2006 and 11 December 2006.





Elisabeth Lucas and Michael McCarthy retire by rotation at the Annual General Meeting and being eligible offer themselves for re-election. The Company's AGM will be held in London on 8 February 2007.

## ■ Corporate Governance

As the Company is listed on the Alternative Investment Market it does not have to follow the Combined Code on Corporate Governance which applies to fully listed companies. However, being aware of the need to adhere to the highest standards of Corporate Governance, the Company voluntarily conducts its affairs in harmony with the spirit and provisions of the Code in so far as is practicable and relevant to its status.

## ■ Board Structure and Process

The Board comprises three Executive and two Non-Executive Directors. The Board considers that all the Non-Executive Directors are independent in character and judgement and that there are no relationships or circumstances which are likely to affect their independent judgement.

The Executive Directors have direct responsibility for business operations whilst the Non-Executive Directors have a responsibility to bring independent, objective judgement to bear on Board decisions. The Board met six times during the year to review financial performance and approve key business decisions, so that it retained control over strategic, budgetary, financial and organisational issues and monitored executive management. In addition to the Executive Directors, the members of the Senior Executive Team are: Susan Anthony, Managing Director UK Translation Division; Stephen Lodge, Managing Director Information Division, and, Reinhard Ottway, Business Development Director. These other members of the Senior Executive Team are invited to attend meetings and report on the areas of responsibility delegated to them.

## ■ Internal Controls and Management of Risk

The Board has overall responsibility for the Group's system of internal control but has delegated to the executive management the establishment and implementation of a system of internal financial control which aims to safeguard shareholders' investments and the Group's assets, ensure that proper accounting records are maintained and that financial information used within the business is accurate, reliable and fairly presents the financial position of the Group and the results of its business operations. The Board is responsible for reviewing the effectiveness of the system of internal control. The system is designed to provide reasonable assurance of effective operations and compliance with laws and regulations, although any system of internal control can only provide reasonable and not absolute assurance against material misstatement or loss.

## ■ Audit Committee

The members of the Audit Committee are Peter Mountford (Chairman of the Committee), John Ivey and Andrew Brode. All three are Chartered Accountants. The members, with the exception of Andrew Brode, are Non-Executive Directors and the Board is satisfied they have recent and relevant financial experience.

The core remit of the Audit Committee is to review and report to the Board on:

- the effectiveness of internal controls and financial reporting and any significant breaches, deficiencies or material weaknesses therein;
- any significant concerns of the external auditor about the conduct, results or overall outcome of the annual audit of the Company; and
- any matters which may significantly affect the independence of the external auditor.

### ■ Remuneration Committee

The members of the Remuneration Committee are John Ivey (Chairman of the Committee), Peter Mountford and Andrew Brode. With the exception of Andrew Brode, the members are Non-Executive Directors.

Further information about the membership of the Remuneration Committee and the Company's remuneration policy is set out on page 10 in the Directors' Remuneration Report.

### ■ Employment of Disabled Persons

It is Company policy that people with disabilities should have the same consideration as others with respect to recruitment, retention and personal development. People with disabilities, depending on their skills and abilities, enjoy the same career prospects as other employees and the same scope for realising potential.

### ■ Employee Involvement

The Company's policy is to consult and discuss with employees at staff meetings matters likely to affect employee interests. The Company is committed to a policy of recruitment and promotion on the basis of aptitude and ability irrespective of sex, race or religion. Group subsidiaries endeavour to provide equal opportunities in recruiting, training, promoting and developing the careers of all employees.

### ■ Substantial Shareholdings and Options

At 30 September 2006, excluding Directors, the following were substantial shareholders:	% holding
Merrill Lynch Investment Group Limited and Merrill Lynch and Co Inc	12
Invesco Perpetual	6
Liontrust Asset Management	4
Henderson Global Investors	3
Unicorn Asset Management	3
Old Mutual Asset Managers	3

Westpool Investment Trust plc has warrants to subscribe for 24,000 Ordinary shares at an exercise price of £39.25 per share.

Adrian Bradshaw, under an agreement dated 10 October 2003, has an option to subscribe for 944,553 shares (2.5% of the issued share capital at the time of flotation) at an exercise price of 112.54p. This option is exercisable at any time on or before the fifth anniversary of the admission to AIM. At 30 September 2006 options over 586,000 Ordinary shares of the Company had been exercised.

### ■ Payment Policies

The terms of sales collections and supplier payments will reflect local commercial practice. In the UK, the Company and each of its UK subsidiary undertakings have policies to ensure that suppliers are paid on time and seek to abide by the agreed terms of payment. The policy includes arrangements for accelerated payment of small suppliers. The total amount of money owed by the Group and its subsidiary undertakings at the balance sheet date was equivalent to 33 days (2005: 35 days) average purchases. The Company had no trade creditors at the year end.



## ■ Preparation of the Financial Statements and 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 the Group and of the profit or loss 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, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

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 taking reasonable steps to safeguard the assets of the Group and for preventing and detecting fraud and other irregularities.

Financial statements are published on the Group's web site in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's web site is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

## ■ Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any relevant information to the audit and established that the auditors are aware of that information. As far as each of the directors is aware, there is no 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 reappoint them will be proposed at the Annual General Meeting.

On behalf of the Board

**Michael McCarthy** Director

11 December 2006

### ■ Remuneration Committee

The members of the Remuneration committee are John Ivey (Chairman of the Committee), Peter Mountford and Andrew Brode. John Ivey and Peter Mountford are Non-Executive Directors and Andrew Brode is the Executive Chairman and a substantial shareholder in the Ordinary shares of the Company.

The remit of the Committee is primarily to determine and agree with the Board the framework or broad policy for the remuneration of the Company's Executive Directors and, if required by the Board, senior executives of the Group. The remuneration of Non-Executive Directors is a matter for the Board, excluding the Non-Executive Directors, and no director or manager is involved in any decision as to his or her own remuneration.

The Board has confirmed that the Group's overall remuneration policy and purpose is to attract and retain the right people and provide appropriate incentives to encourage enhanced performance so as to create growth in shareholder value.

### ■ Individual Elements of Remuneration

For Executive Directors and senior executives the benefit components contained in the total remuneration package are:

- base salary;
- performance related annual bonus, but this does not apply to the Executive Chairman;
- share participation, but this does not apply to the Executive Chairman; and
- other customary benefits such as holidays, car and health benefits, sickness benefit and pensions.

For Non-Executive Directors the benefit component is a base fee.

### ■ Service Contracts

Neither of the Non-Executive Directors has a service contract. Their appointments will continue unless and until terminated by either party giving not less than 30 days' notice.

The notice period of all the Executive Directors is less than one year. The date of the Executive Chairman's service contract is 30 October 2003 and the service contracts of Elisabeth Lucas and Michael McCarthy are dated 14 November 2003. In the event of the termination of an Executive Director's service contract, depending upon the circumstances, the Company may be liable to provide compensation to the Executive Director equivalent to the benefits which he or she would have received during the contractual notice period.

The service contracts continue unless and until terminated by either party giving at least six months' notice. Employment shall terminate automatically and the Executive Director shall be required to retire on the last day of the financial year in which, in the case of the Executive Chairman his 70th birthday occurs, and in the case of Executive Directors their 65th birthday occurs.

### ■ Directors' Emoluments and Pension Contributions

The aggregate remuneration, excluding pension contributions, paid or accrued for all Directors and senior executives of the Group for services in all capacities during the year ended 30 September 2006 was £1,216,000 (including £231,000 to the Executive Chairman). Remuneration of individual Directors and the pension contributions paid by the Group to their personal pension schemes during the year were as follows:



	Salary or fees	Bonuses	Taxable benefits	2006 Total	2006 Pension contributions	2005 Total	2005 Pension contributions
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Andrew Brode	230	–	1	231	24	228	29
Elisabeth Lucas	176	38	1	215	5	216	5
Michael McCarthy	142	32	1	175	4	171	4
John Ivey	25	–	–	25	–	25	–
Peter Mountford	25	–	–	25	–	25	–
	598	70	3	671	33	665	38

Bradmount Investments Limited has an agreement with Peter Mountford that the fees and other emoluments payable in respect of his Non-Executive Directorship of RWS Holdings plc are payable to Bradmount Investments Limited, a company of which he is a director.

### ■ Directors' Interests in Shares

The interests of the Directors (including the interests of their families and related trusts), all of which were beneficial, in the Ordinary shares of the Company at 1 October 2005 and 30 September 2006 are shown below. There were no shares acquired or sold during the year other than that disclosed below. None of the Directors has a beneficial interest in the shares of any of the Company's subsidiaries.

	Ordinary shares of 5p at start and end of year
Andrew Brode	18,590,812
Elisabeth Lucas	–
Michael McCarthy	–
John Ivey	10,000
Peter Mountford – during the year sold 160,000 shares that had been acquired on exercising options	3,325
	18,604,137

## Directors' Remuneration Report (continued)

The interests of Directors and Senior Executives in options to subscribe for Ordinary shares of the Company, together with options granted and exercised during the year are included in the following table. All options were granted at market value at the date of grant.

		No. of shares under option	Exercise price Pence	First date exercisable	Last date exercisable
E A Lucas	At 1 October 2005 and 30 September 2006	604,515	23.00	11.11.2004	12.12.2011
M A McCarthy	At 1 October 2005 and 30 September 2006	302,257	23.00	11.11.2004	12.12.2011
P Mountford	At 1 October 2005 Exercised At 30 September 2006	944,553 160,000 784,553	112.54 112.54 112.54	11.11.2004 11.11.2004	11.11.2008 11.11.2008
S P Anthony	At 1 October 2005 Exercised At 30 September 2006	453,386 100,000 353,386	23.00 23.00 23.00	11.11.2004 11.11.2004	12.12.2011 12.12.2011
S J Lodge	At 1 October 2005 and 30 September 2006	604,515	23.00	11.11.2004	12.12.2011
R K Ottway	At 1 October 2005 and 30 September 2006	226,693	23.00	11.11.2004	12.12.2011

During the year the following Directors exercised options as set out below:	Date exercised	Number	Market price at date of exercise Pence	Gain £000
P Mountford	June 2006	160,000	280.00	268

### ■ Transactions with Directors

During the year there were no material recorded transactions between the Company and the Directors.

On behalf of the Board

**Michael McCarthy** Director

11 December 2006



## Report of the Independent Auditors to the Members of RWS Holdings plc

We have audited the Group and parent company financial statements (the “financial statements”) of RWS Holdings PLC for the year ended 30 September 2006 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cashflow statement, the statement of total recognised gains and losses 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 (United Kingdom 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors’ Report, the Executive Chairman’s Statement and Directors’ Remuneration Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 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 (United Kingdom and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group’s and 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.

## ■ 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 30 September 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 30 September 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

8 Baker Street, London W1U 3LL

11 December 2006



# Financial Statements



**UK GERMANY**  
**JAPAN**  
**FRANCE USA**  
**CHINA**





## Group Profit and Loss Account for the year ended 30 September 2006

		2006	2005
	Note	£'000	£'000
Turnover	3	40,779	35,875
Cost of sales		(24,141)	(21,198)
Gross profit		16,638	14,677
<b>Administrative expenses</b>			
Amortization of goodwill	12	(631)	(616)
Other		(8,082)	(7,648)
		(8,713)	(8,264)
<b>Profit on ordinary activities before interest</b>		<b>7,925</b>	<b>6,413</b>
Net interest	6	483	412
<b>Profit on ordinary activities before taxation</b>	<b>7</b>	<b>8,408</b>	<b>6,825</b>
Taxation	8	(2,509)	(2,265)
<b>Profit on ordinary activities after taxation</b>		<b>5,899</b>	<b>4,560</b>
Attributable to minorities		–	–
<b>Profit for the financial year</b>		<b>5,899</b>	<b>4,560</b>
		<b>Pence</b>	<b>Pence</b>
<b>Earnings per 5p Ordinary share</b>	<b>10</b>		
Basic earnings per share		15.2	11.9
Diluted earnings per share		14.2	11.1

All amounts relate to continuing activities.

The notes on pages 21 to 35 form part of these Financial Statements.

## Group Statement of Total Recognised Gains and Losses for the year ended 30 September 2006

		2006	2005
	Note	£'000	£'000
<b>Profit attributable to shareholders</b>		<b>5,899</b>	<b>4,560</b>
Exchange adjustments on retranslation of net assets of subsidiary undertakings	22	(67)	(25)
<b>Total recognised gains and losses</b>		<b>5,832</b>	<b>4,535</b>

The notes on pages 21 to 35 form part of these Financial Statements.

## Group Balance Sheet at 30 September 2006

		2006		2005	
	Note	£'000	£'000	£'000	restated £'000
<b>Fixed assets</b>					
Intangible assets	12		6,418		7,049
Tangible assets	13		836		935
			7,254		7,984
<b>Current assets</b>					
Work in progress	15	1,240		773	
Debtors	16	7,599		6,571	
Cash at bank		16,139		12,280	
		24,978		19,624	
Creditors: amounts due within one year	17	(10,993)		(10,437)	
<b>Net current assets</b>			13,985		9,187
<b>Net assets</b>			21,239		17,171
<b>Capital and reserves</b>					
Called up share capital	21/22		1,954		1,922
Share premium account	22		1,977		1,378
Share option reserve	22		1,873		1,962
Capital reserve	22		157		68
Reverse acquisition reserve	22		(8,483)		(8,483)
Profit and loss account	22		23,751		20,314
<b>Shareholders' funds</b>	22		21,229		17,161
<b>Minority interests</b>			10		10
<b>Shareholders' funds and minority interests</b>			21,239		17,171

The notes on pages 21 to 35 form part of these Financial Statements.

The restatement of 2005 comparatives is explained in note 2 on page 21.

The Financial Statements were approved by the Board of Directors and authorised for issue on 11 December 2006 and were signed on its behalf by:

**Andrew Brode** Director



## Statement of Group Cash Flow for the year ended 30 September 2006

		2006		2005
	Note	£'000	£'000	£'000
<b>Net cash inflow from operating activities</b>	24		<b>7,967</b>	<b>7,142</b>
<b>Returns on investments and servicing of finance</b>				
Interest received		474		401
Interest paid		(1)		(1)
			473	400
<b>Tax paid</b>			<b>(2,485)</b>	<b>(2,143)</b>
<b>Capital expenditure and financial investment</b>				
Purchase of tangible fixed assets	13		(208)	(233)
Free cash flow			5,747	5,166
<b>Acquisitions and disposals</b>				
Acquisition of subsidiary undertakings		–		(2,430)
Net overdraft in subsidiary undertakings acquired		–		(249)
			–	(2,679)
<b>Dividends paid to shareholders</b>			<b>(2,395)</b>	<b>(1,970)</b>
<b>Financing</b>				
Issue of ordinary shares	22		631	674
<b>Increase in cash</b>	25		<b>3,983</b>	<b>1,191</b>

The notes on pages 21 to 35 form part of these Financial Statements.

## Company Balance Sheet at 30 September 2006

		2006		2005	
	Note	£'000	£'000	£'000	restated £'000
<b>Fixed assets</b>					
Investments	14		4,965		4,965
<b>Current assets</b>					
Debtors	16	10,158		17,533	
Cash at bank		10,139		6,303	
		20,297		23,836	
<b>Creditors: amounts due within one year</b>	17	(4,587)		(6,291)	
<b>Net current assets</b>			15,710		17,545
<b>Net assets</b>			20,675		22,510
<b>Capital and reserves</b>					
Called up share capital	21/22		1,954		1,922
Share premium account	22		1,977		1,378
Share option reserve	22		1,873		1,962
Capital reserve	22		157		68
Other reserves	22		5,533		5,533
Profit and loss account	22		9,181		11,647
<b>Shareholders' funds</b>	22		20,675		22,510

The notes on pages 21 to 35 form part of these Financial Statements.

The restatement of 2005 comparatives is explained in note 2 on page 21.

The Financial Statements were approved by the Board of Directors and authorised for issue on 11 December 2006 and were signed on its behalf by:

**Andrew Brode** Director

## 1 Basis of consolidation and presentation of financial information

On 11 November 2003, RWS Holdings plc became the legal parent company of Bybrook Limited and its subsidiary undertakings. The substance of the combination was that Bybrook Limited acquired RWS Holdings plc in a reverse acquisition.

The Directors have adopted reverse acquisition accounting as a basis of consolidation in order to give a true and fair view of the substance of the combined entity. In invoking the true and fair override, the Directors note that reverse acquisition accounting is endorsed by International Financial Reporting Standard 3 and that the Urgent Issues Task Force of the UK's Accounting Standards Board considered the subject and concluded that there are instances where it is right and proper to invoke the true and fair override in such a way.

Goodwill arose on the difference between the fair value of the legal parent's share capital and fair value of its net liabilities at the reverse acquisition date. This goodwill has been written-off in the year ended 30 September 2004, because the goodwill has no intrinsic value. Other goodwill arising on consolidation and purchased goodwill are capitalised and amortized through the Profit and Loss Account over the Directors' estimate of its useful economic life that does not exceed 20 years.

The effect on the consolidated financial statements of adopting reverse acquisition accounting rather than following the legal form is widespread. However, the following table indicates the principal effect on the composition of the reserves.

	Reverse acquisition accounting	Normal acquisition accounting	Impact of reverse acquisition accounting
	£'000	£'000	£'000
Called up share capital	1,889	1,889	–
Share premium reserve	737	737	–
Share option reserve	2,030	2,030	–
Reverse acquisition reserve	(8,483)	–	(8,483)
Other reserve	–	5,533	(5,533)
Profit and loss account	16,426	(6,602)	23,028
	12,599	3,587	9,012

As severe long-term restrictions substantially hinder the rights of the Group over Pang Health Limited, which is in liquidation, it has been excluded from the consolidation in accordance with Financial Reporting Standard 2, "Accounting for subsidiary undertakings". The Group's investment in Pang Health Limited has been recorded as £nil.

## 2 Accounting policies

The financial statements have been prepared under the historical cost convention, applying accounting policies consistent with those applied in earlier periods, and, are in accordance with applicable accounting standards. The main accounting policies under UK GAAP are described below and are unchanged from the previous year apart from the adoption of certain new Financial Reporting Standards (FRS).

### Changes in accounting policies

The adoption of FRS 17 'Retirement benefits' has had no impact on the financial statements.

The adoption of FRS 21 'Events after the balance sheet date' has resulted in a change in accounting policy in respect of proposed equity dividends. If the Company declares dividends to the holders of equity instruments after the balance sheet date the Company does not recognise those dividends as a liability at the balance sheet date. Previously where these equity dividends were proposed after the balance sheet date but before authorisation of the financial statements they were recorded as liabilities at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements which have not been shown as liabilities at the balance sheet date, are

disclosed in the notes to the financial statements. As a result of operating the standard, net assets and retained profits at 30 September 2005 have increased by £1,672,000 and net assets at 30 September 2006 have increased by £2,091,000.

FRS 22 'Earnings per share' has been adopted and there has been no impact on the calculation of earnings per share. FRS 22 only allows basic and diluted earnings per share on the face of the profit and loss account. Other methods of calculating earnings per share are required to be shown in the notes with reference to the basis of the calculations carried out and reconciled to the earnings per share reported under this standard.

The presentational requirements of FRS 25 'Financial instruments: disclosure and presentation' were adopted.

FRS 28 'Corresponding amounts' has had no impact on the financial statements.

**Turnover** Turnover represents sales to outside customers at invoiced amounts less value added tax. Revenue, other than subscription revenue, is recognised as a transaction, filing or search is fulfilled in accordance with agreed client instructions. Subscription revenue is recognised on a straight line basis over the term during which the service is provided.

**Intangible fixed assets** On acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds the fair value of such net assets. Goodwill arising on acquisitions is capitalised and amortized through the Profit and Loss Account over the Directors' estimate of its useful economic life (generally not exceeding 20 years). Goodwill is reviewed for impairment when there are indications that the carrying value may not be recoverable.

Other purchased goodwill is capitalised and amortized through the Profit and Loss Account over the Directors' estimate of the useful economic life. The economic life for each asset within this category is considered individually and is not normally expected to exceed 20 years.

**Tangible fixed assets** All tangible fixed assets are stated at cost less depreciation and any impairment recognised.

Depreciation is provided to write off the cost, less estimated residual value, of all fixed assets over their expected useful lives. It is calculated at the following rates on a straight line basis:

Long leasehold and leasehold improvements - over the term of the lease

Furniture and equipment - 10% to 33%

Motor vehicles - 25%

**Fixed asset investments** Investments are held at nominal value where the acquisition met the merger relief conditions under Section 131 of the Companies Act 1985 plus the fair value of any other consideration. Other investments are stated at cost less any impairment in value.

**Work in progress** Work in progress is valued at the lower of cost and net realisable value.

**Foreign currencies** Foreign currency transactions by Group companies are booked in local currency at the exchange rate ruling on the date of the transaction. Foreign currency assets and liabilities are translated into local currency at the rates of exchange ruling at the balance sheet date. Exchange differences are included in operating profit.

Assets and liabilities of overseas subsidiary undertakings are translated into sterling at rates of exchange ruling at the date of the Group Balance Sheet. The results and cash flows of overseas subsidiary undertakings are translated into sterling using average rates of exchange. Exchange adjustments arising when the opening net assets and the profits for the period retained by overseas subsidiary undertakings are translated into sterling, less exchange differences arising on related foreign currency borrowings, are taken directly to reserves and reported in the Statement of Total Recognised Gains and Losses.





**Financial instruments** The Group does not hold or issue derivative financial instruments for trading purposes. Forward foreign exchange contracts are used to hedge currency exposures on up to the next 12 months' expected sales. The gains and losses on foreign exchange contracts hedging anticipated currency exposures on sales are deferred until the date the hedge contract matures. Short term trade debtors and creditors are not treated as financial assets or liabilities except for currency disclosures.

**Deferred taxation** The Group accounts for taxation which is deferred or accelerated by reason of timing differences which have originated but not reversed by the balance sheet date. Deferred tax assets are only recognised to the extent that they are considered recoverable against future taxable profits. Deferred tax liabilities and assets are not discounted.

**Liquid resources** For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

**Operating leases** Annual rentals are charged to the Profit and Loss Account on a straight line basis over the lease term.

**Pension costs** Company contributions to the group personal pension scheme are charged to the Profit and Loss Account in the period in which they become payable.

**Share options** When shares and share options are awarded to employees a charge is made based on the difference between the market value of the Company's shares at the date of grant and the option exercise price in accordance with UITF Abstract 17 (revised 2003) "Employee Share Schemes". The credit entry for this charge is taken to the Profit and Loss reserve and reported in the reconciliation of movements in shareholders' funds.

## Notes to the Financial Statements (continued)

### 3 Segment information

	2006	2005
		restated
	£'000	£'000
<b>Turnover by class of business</b>		
Translation and localization services	38,032	33,327
Information services	2,747	2,548
	<b>40,779</b>	<b>35,875</b>
The tables below show information by geographic area and, for turnover and assets, material countries.		
<b>Turnover by geographic location of Group undertaking</b>		
United Kingdom	36,673	31,748
Continental Europe	616	611
Japan	3,304	3,339
United States of America	186	177
	<b>40,779</b>	<b>35,875</b>
<b>Turnover by geographic market in which customers are located</b>		
United Kingdom	5,676	4,882
Continental Europe		
Germany	14,296	13,284
France	4,812	3,698
Other	8,228	6,695
	<b>27,336</b>	<b>23,677</b>
Japan	2,470	2,446
United States of America	5,061	4,747
Other	236	123
	<b>40,779</b>	<b>35,875</b>
<b>Total assets by location of Group undertaking</b>		
UK	30,476	26,082
Others	1,756	1,526
	<b>32,232</b>	<b>27,608</b>
<b>Net assets by location of Group undertaking</b>		
UK	19,898	16,038
Others	1,341	1,133
Net assets	<b>21,239</b>	<b>17,171</b>

#### Profit before taxation by business sector and location of Group undertaking

In the opinion of the Directors, disclosure would be seriously prejudicial to the interests of the Group.



## 4 Employees

	2006		2005	
	Group £'000	Company £'000	Group £'000	Company £'000
Staff costs consist of:				
Wages and salaries	11,261	280	10,186	278
Social security costs	1,315	31	1,201	31
Pension costs	231	24	221	29
	<b>12,807</b>	<b>335</b>	<b>11,608</b>	<b>338</b>
The average number of employees (including directors) during the year was as follows:	<b>Number</b>	<b>Number</b>	<b>Number</b>	<b>Number</b>
Production staff	280	–	267	–
Administrative staff	66	3	65	3
	<b>346</b>	<b>3</b>	<b>332</b>	<b>3</b>

Included within the above are directors and their remuneration, except for gains on options exercised.

There were Group pension contributions of £30,951 outstanding at the year end (30 September 2005: £28,252).

There were no outstanding pension contributions for the Company at the end of either year.

## 5 Directors' remuneration

	2006		2005	
	£'000		£'000	
Directors' emoluments	671		665	
Gains on the exercise of share options	268		–	
Company contributions to Group pension scheme	33		38	

Details of the Directors' emoluments and pension contributions and the interests of Directors and Senior Executives in the Ordinary shares of the Company are set out on pages 10 to 12 in the Directors' Remuneration Report.

There were two directors in the Group's defined contribution pension scheme during the year (2005: 2). The Executive Chairman has personal pension arrangements.

Emoluments of the highest paid director were £231,000 (2005: £228,000). Contributions in respect of personal pension arrangements amounted to £24,000 (2005: £29,000).

## 6 Net interest

	2006		2005	
	£'000		£'000	
<b>Bank interest receivable</b>				
Short-term deposits	484		413	
<b>Bank interest payable on short-term borrowings</b>	(1)		(1)	
	<b>483</b>		<b>412</b>	

## Notes to the Financial Statements (continued)

### 7 Profit on ordinary activities before taxation

	2006	2005
	£'000	£'000
This is arrived at after charging:		
Depreciation (note 13)	307	342
Amortization of goodwill (note 12)	631	616
Auditors' remuneration		
– Audit fees (Company £31,000, 2005: £32,500)	94	90
– Non-audit services – related to taxation	38	30
Operating lease rentals		
– Equipment	136	115
– Land and buildings	777	769

### 8 Taxation

	2006	2005
	£'000	£'000
Analysis of tax charge:		
Corporation tax	2,403	2,024
Adjustments in respect of prior years	(154)	(53)
Overseas taxation	260	294
Total current tax charge	2,509	2,265
<b>Taxation reconciliation to UK statutory rate</b>		
The table below reconciles the UK statutory tax charge to the Group's current tax charge on ordinary activities before taxation.		
Profit on ordinary activities before taxation	8,408	6,825
Notional taxation charge at UK corporation tax rate of 30% (2005: 30%)	2,522	2,048
Effects of:		
Items not deductible or not chargeable for tax purposes	48	148
Depreciation in excess of capital allowances	20	45
Other short term timing differences	–	(4)
Differences in effective overseas tax rates	73	81
Adjustments in respect of prior periods	(154)	(53)
Current tax charge for the year	2,509	2,265

The Group has estimated capital losses of £20 million available for offset against the capital gain arising on the redemption of loan notes in the year ended 30 September 2004. As the quantum of the capital losses has not been agreed the offset of the capital losses has not been recognised in the current tax charge and no deferred tax asset recognised.



## 9 Dividends

	2006	2005
		restated
	£'000	£'000
<b>On each 5p Ordinary share</b>		
Final proposed 2004 (paid 7 March 2005) – 3.50 pence per share	–	1,323
Interim, paid on 30 June 2005 – 1.65 pence per share	–	647
Final proposed 2005 (paid 16 February 2006) – 4.35 pence per share	1,672	–
Interim, paid on 14 July 2006 – 1.85 pence per share	723	–
	<b>2,395</b>	<b>1,970</b>
Final dividend proposed for the year of 5.35 pence (2005: 4.35 pence)	<b>2,091</b>	<b>1,672</b>

The proposed final dividend has not been accrued as it was declared after the balance sheet date. The final proposed dividend will reduce shareholders' funds by an estimated £2.1 million.

## 10 Earnings per Ordinary share

	2006		2005	
	Earnings	EPS	Earnings	EPS
	£'000	Pence	£'000	Pence
Basic earnings	5,899	15.2	4,560	11.9
Goodwill amortization	631	1.6	616	1.6
Adjusted earnings	6,530	16.8	5,176	13.5
Diluted adjusted earnings per share		15.8		12.7

No significant tax effect arose from the adjustment in either the current or prior year.

	Number of shares	Number of shares
Diluted earnings per share are based on the group profit for the year and a weighted average of Ordinary shares in issue during the year calculated as follows:		
In issue	38,763,414	38,204,648
Dilutive potential Ordinary shares arising from unexercised share options	2,863,444	2,735,932
	<b>41,626,858</b>	<b>40,940,580</b>

At 30 September 2006 there were unexercised options over a total of 3,234,472 (2005: 3,874,472) Ordinary shares.

## 11 Loss/profit attributable to the members of RWS Holdings plc

No Profit and Loss Account has been presented for the Company, as permitted by Section 230 of the Companies Act 1985. The Group profit for the year includes a restated loss after tax of £71,000 (2005: restated profit £3,305,000) which is dealt with in the financial statements of the parent company.

## 12 Intangible fixed assets

	Goodwill £'000
<b>Group</b>	
Cost at beginning and end of year	14,527
Amortization at beginning of year	7,478
Provision for the year	631
Amortization at end of year	8,109
Net book value at beginning of year	7,049
Net book value at end of year	6,418

At 30 September 2006, the net book value of goodwill arising on consolidation was £6,069,000 (2005: £6,658,000), and the net book value of other goodwill was £349,000 (2005: £391,000).

## 13 Tangible fixed assets

	Leasehold land, buildings and improvements £'000	Furniture and equipment £'000	Motor vehicles £'000	Total £'000
<b>Group</b>				
Cost at beginning of year	898	1,452	27	2,377
Additions	–	208	–	208
Disposals and other movements	–	(24)	–	(24)
Cost at end of year	898	1,636	27	2,561
Depreciation at beginning of year	370	1,060	12	1,442
Provision for the year	71	229	7	307
Disposals and other movements	–	(24)	–	(24)
Depreciation at end of year	441	1,265	19	1,725
Net book value at beginning of year	528	392	15	935
Net book value at end of year	457	371	8	836



## 14 Investments

	Subsidiary undertakings
	£'000
<b>Company</b>	
Cost and net book value at beginning and end of year	4,965

The following were the principal wholly owned subsidiary undertakings and have been consolidated in the Financial Statements:

	Country of incorporation	Nature of business
Bybrook Limited	England	Holding company
Eclipse Translations Limited	England	Technical and legal translations
KK RWS Group	Japan	Patent, technical and legal translations
Lawyers' and Merchants' Translation Bureau Inc	USA	Technical and legal translations
Plastics Translations Limited	England	Holding company
RWS Group GmbH	Germany	Technical and legal translations
RWS Group Limited	England	Holding company
RWS Information Limited	England	Patent and technical information searches
RWS (Overseas) Limited	England	Holding company
RWS Translations Limited	England	Patent, technical and legal translations

All principal subsidiary undertakings, except Bybrook Limited, are held indirectly.

## 15 Work in progress

	2006		2005	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Translations, searches and localizations	1,240	–	773	–

## 16 Debtors

	2006		2005	
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
<b>Amounts due within one year</b>				
Trade debtors	6,641	–	5,650	–
Amounts owed by Group undertakings	–	10,134	–	17,510
Other debtors	374	1	425	1
Prepayments and accrued income	584	23	496	22
	7,599	10,158	6,571	17,533

## Notes to the Financial Statements (continued)

### 17 Creditors: amounts due within one year

	2006		2005	
	Group	Company	restated	restated
			Group	Company
£'000	£'000	£'000	£'000	
Bank overdraft – secured (note 19)	227	–	351	–
Trade creditors	1,722	–	1,539	–
Amounts owed to Group undertakings	–	–	–	1,724
Other creditors	703	–	567	–
Creditors for taxation and social security	927	–	823	–
Corporation tax	5,533	4,434	5,509	4,434
Accruals and deferred income	1,881	153	1,648	133
	10,993	4,587	10,437	6,291

The corporation taxation amount includes £4,434,000 being the liability on the gain arising on the redemption of loan notes in the year ended 30 September 2004 (see note 8).

### 18 Financial instruments and related disclosures

The Group's principal financial instruments, other than derivatives, are cash, short term deposits and bank overdrafts which are used to manage the Group's funding and liquidity requirements. The Group has other financial instruments such as trade receivables and trade payables, which arise directly from its operations.

The principal financial risks to which the Group is exposed are those of interest rate, liquidity, foreign exchange and credit.

**Interest rate risk** The Group's interest rate risk exposure is primarily to changes in variable interest rates. Most available funds, after meeting working capital requirements, are invested in short term Sterling and Euro deposits. At 30 September 2006 all deposits were on call generating interest at rates between 1% and 5% (2005: 1% and 5%). Bank overdrafts at the balance sheet date amounted to £227,000 (2005: £351,000) were bearing interest at a rate of 1% (2005: 1%) over Barclays Bank base rate.

Interest rate profile	Floating rate financial assets	Floating rate financial assets
	2006	2005
	£'000	£'000
Sterling	11,083	7,680
Euros	3,205	2,878
Yen	980	770
Swiss Francs	457	249
US Dollar	414	703
Gross assets	16,139	12,280

**Liquidity risk** In addition to cash balances and short term deposits the Group has a Sterling overdraft facility. The Group's policy is to ensure that borrowing facilities are sufficient for its anticipated working capital needs for at least 12 months ahead.

**Foreign currency risk** The Euro is the Group's most significant currency. More than half of expected future sales give rise to currency exposures but the Group's cost base is primarily Sterling. The Group seeks to hedge these exposures through forward foreign exchange





contracts; none of these have a maturity of more than one year after the balance sheet date. At the year end exposures to the Euro and US Dollar were unhedged.

**Credit risk** The Group's credit risk is primarily attributable to its trade receivables and the financial counterparties for hedged currency exposures, foreign exchange transactions at spot and short term deposits. Forward foreign exchange contracts and short term deposits are transacted only with financial institutions appointed as group company bankers. Foreign exchange contracts at spot are transacted through the company bankers and other specialist foreign exchange intermediaries approved at Group level after due consideration of their credit rating. Trade receivables are managed locally in the operating units where they arise. The Group is mainly exposed to major multinational corporations drawn from Europe, North America and Japan who operate in a diverse range of business sectors.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset recorded in the balance sheet.

Functional currency of group operations	Net foreign currency monetary assets and liabilities			
	Euro £'000	US Dollar £'000	Other £'000	Total £'000
At 30 September 2006				
Sterling	4,894	1,130	886	6,910
At 30 September 2005				
Sterling	4,599	1,086	381	6,066

Fair value of financial assets and financial liabilities	2006		2005	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Short term overdrafts	(227)	(227)	(351)	(351)
Cash	16,139	16,139	12,280	12,280
	15,912	15,912	11,929	11,929

**Gains and losses on hedges** The Group's policy is to seek to hedge currency exposures on expected future sales through forward foreign currency contracts. The table below shows the extent to which the Group has off balance sheet (unrecognised) and off balance sheet (deferred) gains and losses in respect of financial instruments used as hedges at the beginning and end of the year. It also shows the amount of such gains and losses which have been included in the Profit and Loss Account for the year and those gains and losses which are expected to be included in Profit and Loss Accounts in subsequent years. However, at 30 September 2006 no forward foreign currency contracts were in place (2005: £3,051,000 - note 20).

The Group has no forward foreign currency contracts hedging foreign currency assets and liabilities that have been translated at the forward rate inherent in the contracts, so there are no deferred gains and losses.

	Gains £'000	Losses £'000	Total net gains £'000
Unrecognised gains and losses at beginning of year	56	—	56
Unrecognised gains and losses arising in previous years recognised in the year	(56)	—	(56)
Unrecognised gains and losses arising in the year	—	—	—
Unrecognised gains and losses at end of year	—	—	—

## 19 Guarantees and other financial commitments

In respect of sterling overdraft facilities, the Company, together with certain subsidiary undertakings, has given to the Group's principal bankers cross-guarantees that are secured by fixed and floating charges over the assets of the Group. At the end of the year the liabilities covered by these guarantees totalled £227,000 (2005: £351,000).

## 20 Commitments and contingent liabilities

	2006	2005
	£'000	£'000
<b>Group</b>		
<b>Forward foreign exchange contracts</b>		
At the balance sheet date the Group had outstanding contracts, for periods of twelve months or less, to sell foreign currency having a principal amount of	–	3,051
<b>Annual commitments under operating leases which expire:</b>		
<b>Land and buildings</b>		
Within one year	113	17
Between one and five years	619	721
After five years	43	43
	<b>775</b>	<b>781</b>
<b>Equipment</b>		
Within one year	5	26
Between one and five years	87	106
	<b>92</b>	<b>132</b>

The Group had no capital commitments contracted for but not provided for in the Financial Statements.

## 21 Share capital

	2006	2005
	£'000	£'000
<b>Authorised</b>		
100,000,000 Ordinary shares of 5p	5,000	5,000
<b>Allotted, called up and fully paid</b>		
39,081,496 Ordinary shares of 5p (2005: 38,441,496)	1,954	1,922

Details of Directors' and Senior Executives' options to subscribe for the Ordinary shares of the Company are set out on page 12 in the Directors' Remuneration Report. In aggregate these options represent 7.4% of the issued share capital of the Company at the year end. Other unexercised options represent 0.9% of the issued share capital of the Company at 30 September 2006.



## 22 Shareholders' funds and movements on reserves

	Share capital £'000	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Shareholders' funds £'000
<b>Group</b>					
At 30 September 2005 as previously stated	1,922	1,378	(6,453)	18,642	15,489
Prior year adjustment:					
Restatement on adoption of FRS 21 (note 2)	–	–	–	1,672	1,672
Opening shareholders' funds as restated	1,922	1,378	(6,453)	20,314	17,161
Issue of share capital in respect of share options	32	599	–	–	631
Dividends	–	–	–	(2,395)	(2,395)
Profit retained for the financial year	–	–	–	5,899	5,899
Exchange movements	–	–	–	(67)	(67)
At end of year	1,954	1,977	(6,453)	23,751	21,229
	Reverse acquisition reserve £'000	Share option reserve £'000	Capital reserve £'000	Total other reserves £'000	
Other reserves					
At beginning of year	(8,483)	1,962	68	(6,453)	
Issue of share capital in respect of share options	–	(89)	89	–	
At end of year	(8,483)	1,873	157	(6,453)	
	Share capital £'000	Share premium account £'000	Other reserves £'000	Profit and loss account £'000	Shareholders' funds £'000
<b>Company</b>					
At 30 September 2005 as previously stated	1,922	1,378	7,563	9,975	20,838
Prior year adjustment:					
Restatement on adoption of FRS 21 (note 2)	–	–	–	1,672	1,672
Opening shareholders' funds as restated	1,922	1,378	7,563	11,647	22,510
Issue of share capital in respect of share options	32	599	–	–	631
Dividends	–	–	–	(2,395)	(2,395)
Loss for the financial year	–	–	–	(71)	(71)
At end of year	1,954	1,977	7,563	9,181	20,675
	Merger reserve £'000	Share option reserve £'000	Capital reserve £'000	Total other reserves £'000	
Other reserves					
At beginning of year	5,533	1,962	68	7,563	
Issue of share capital in respect of share options	–	(89)	89	–	
At end of year	5,533	1,873	157	7,563	

## Notes to the Financial Statements (continued)

### 23 Reconciliation of movements on shareholders' funds

	2006		2005	
			restated	restated
	Group	Company	Group	Company
	£'000	£'000	£'000	£'000
Profit/(loss) for the financial year	5,899	(71)	4,560	3,305
Dividends paid (note 9)	2,395	2,395	1,970	1,970
Net additions to shareholders' funds	3,504	(2,466)	2,590	1,335
Opening shareholders' funds as previously stated	15,489	20,838	12,599	19,178
Restatement of dividends re FRS 21	1,672	1,672	1,323	1,323
Opening shareholders' funds as restated	17,161	22,510	13,922	20,501
Additions to shareholders' funds	3,504	(2,466)	2,590	1,335
Issue of share capital in respect of share options	631	631	674	674
Exchange adjustment on consolidation	(67)	–	(25)	–
Shareholder's funds at end of year	21,229	20,675	17,161	22,510

### 24 Reconciliation of operating profit to net cash flow from operating activities

	2006		2005	
	£'000		£'000	
Group operating profit	7,925		6,413	
Depreciation and amortization	938		958	
Work in progress increase	(467)		(91)	
Debtors increase	(1,017)		(1,341)	
Creditors increase	653		1,218	
Other non-cash movements	(65)		(15)	
Net cash inflow from operating activities	7,967		7,142	

### 25 Reconciliation of net cash flow to movement in net funds

	2006		2005	
	£'000		£'000	
Increase in cash in the year	3,983		1,191	
Net funds at beginning of the year	11,929		10,738	
Net funds at end of year	15,912		11,929	



## 26 Analysis of net funds

	At 1 Oct 2005	Cash flow	At 30 Sept 2006
	£'000	£'000	£'000
Cash	12,280	3,859	16,139
Overdrafts	(351)	124	(227)
	11,929	3,983	15,912

## 27 Related party transactions

During the year there were no material recorded transactions between related parties.

## 28 Post balance sheet events

There have been no events since 30 September 2006 that require disclosure.

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