



Glen Group plc is a value added, solutions based provider of IT and communications products and services. Through its SME focused subsidiary, Glen Communications Limited, it provides a wide range of integrated services including IT consultancy and support, mobile solutions both voice and data, CRM and hosted broadband voice services. In the corporate space, through its subsidiary Eclectic Group Limited, the group is a niche provider of business intelligence and other IT solutions. With offices in Glasgow, Edinburgh, Rotherham and London the group is well placed to service its growing customer base.

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## CHAIRMAN'S STATEMENT

This has been a transforming year for Glen Group plc ("Glen Group"). In February we completed the acquisition of Eclectic Holdings Limited ("Eclectic"), a niche IT provider of business intelligence consultancy and training services to the corporate market, based in Glasgow, Edinburgh and London. The maximum consideration payable was £3m which included a deferred consideration of up to £787,500, conditional on Eclectic generating PBITA, as defined in the acquisition agreement, of at least £400,000 in the 12 months to 31 July 2006. I am pleased to announce today that the PBITA for that period was £414,842 and the former shareholders of Eclectic will now receive the maximum deferred consideration, to be satisfied by the issue of 73,825,818 shares in Glen Group at a price of 1.0667 p per share. Application will be made for these shares to be admitted to trading on AIM and dealings are expected to commence on 17 January 2007.

In early September, we acquired Explore IT Limited ("Explore"), a small IT services business based in Edinburgh for a consideration of £115,000, paid in cash. Explore provides IT services and support to the SME market and this acquisition has given us a stronger support business which we can now develop in the United Kingdom. Explore has become a wholly owned subsidiary of Glen Communications Limited ("Glen Communications"), our company which focuses on providing integrated IT and communication services to the SME market.

In the year ended 30 September 2006, our turnover was £3,698,245 compared to £538,397 the previous year. This significant increase is the result of both organic growth and the effect of the Eclectic acquisition. Eclectic contributed turnover of £2,733,144 and Glen Communications contributed a very creditable £965,101, against £538,397 the previous year.

The operating loss for the year was £589,222, similar to the 2005 operating loss of £561,204. The group holding company costs for the year were £371,269 compared to £223,381 for 2005, partly due to the additional costs of International Financial Reporting Standards (IFRS) reporting on the AIM market, certain reallocation of costs, and the fact that 2005 was a 10-month reporting period. Eclectic has however delivered a solid operating profit of £147,941 for the period since acquisition, over what is historically the poorer half of the year. Glen Communications has seen a dramatic reduction in its losses between the first and second halves of our financial year, with first half losses of £292,962 reduced to £72,932 in the second half as we increase our penetration of the market.

Our strategy is to continue to build the group organically and by acquisition so that we reach a size that attracts more interest in our shares, particularly institutional interest, as our objective remains to build a substantial business over time. Your Board is very focused on the need to deliver sustained profitability for the group as a whole and increase shareholder value. Your Board is placing emphasis on organic growth, but we will also look at selected acquisitions when we believe it is appropriate to do so.

I would like to thank our Chief Executive, Graham J Duncan, and his team for successfully building the business to a much more meaningful size this year, compared to last, and we look forward to further expansion in the new financial year.

### **Eric M Hagman CBE**

Chairman  
12 January 2007

## BUSINESS REVIEW

### Strategy

We joined AIM in December 2004 as a very small business, with a turnover in the full year prior to Admission of approximately £374,000. Two years on, our turnover has grown nearly ten fold to approximately £3.7m.

Our strategy is to grow the business organically and by acquisition and seek to create shareholder value over time. Our business is firmly rooted in the IT and communications industries where we continue to see interesting and exciting opportunities. These exist particularly in certain key areas such as:

- business information delivery over mobile networks
- opportunities brought about by the introduction of IP technologies to the world of voice traffic
- the business intelligence market where, fuelled by regulatory and business requirements, corporate businesses need to be able to disseminate information intelligently throughout the organisation, knowing that it is up to date, complete and meaningful to the end user.

All of these areas are high growth. Two years on, and with two acquisitions completed, we have both the skill set and the structure that allow us to focus on these markets, target our sales and support teams and deliver high added value to our customers.

We continue to see strong growth in our various markets. We have chosen to direct our market efforts through our two main operating companies:

- Eclectic Group Limited ("Eclectic") whose main focus is in business intelligence consulting to corporate customers across a range of software platforms, and
- Glen Communications Limited ("Glen Communications") which, in association with its new subsidiary company Explore IT Limited, provides IT and communications services, consulting and support to SME customers, and seeks to be the sole provider of these services to individual clients.

We also believe in being able to refine our strategy as the market moves and changes, and seek other opportunities where we can see potential high growth.

Our vision is to build our businesses to a size where they can be important market players in their chosen markets, with our focus on the creation of shareholder value. To deliver on this vision requires us to continue to invest in our organic growth and continue to seek out acquisitions that fit into our business model and that add value for our shareholders.

### Performance

The financial statements for the year have been drawn up on the basis of the recognition and measurement requirements of International Financial Reporting Standards ("IFRS"). Although AIM companies are not required to comply with IFRS until 2007/2008, your Board have decided that we should adopt these at the earliest possible opportunity. The main effect of the adoption has been to unwind the merger accounting that we applied for the Glen Group plc ("Glen Group") acquisition of Glen Communications in late 2004 and this has created goodwill on the consolidated balance sheet. The other main change is to expense the cost of share options. This has resulted in a charge of £19,213 to the 2006 results (2005: £815).

An analysis of the turnover across the last three years is tabulated below:

Turnover	30 September 2006 £	30 September 2005 £	30 September 2004 £
Glen Communications			
– Continuing	942,582	466,950	229,269
– Discontinued (phone cards)	22,519	71,447	144,577
Total	965,101	538,397	373,846
Eclectic (from 15 February 2006)	2,733,144	–	–
<b>Total Turnover</b>	<b>3,698,245</b>	<b>538,397</b>	<b>373,846</b>

These results show strong progress. Glen Communications exited the declining pre-paid phone card business in February 2006, and excluding the turnover from phone cards, Glen Communications continuing business has more than doubled its turnover each year for the last two years.

Turnover from Eclectic, which we have consolidated from the date of acquisition on 15 February 2006, contributed turnover of £2,733,144 in the period. The main business of Eclectic is in the implementation of business intelligence solutions to corporate clients. Eclectic also has a training division which contributed 33.8% of the turnover from Eclectic for the period.

## BUSINESS REVIEW (CONTINUED)

Our consolidated gross margin for the full year was 36.0%. This continues to be robust, despite the changing mix of services. Eclectic's gross margin was 33.6% with Glen Communications at 43.0% (2005: 45.0%).

Our operating costs continue to increase as the business expands. The costs of the business over the last three years can be analysed as follows:

Other operating charges	30 September 2006 £	30 September 2005 £	30 September 2004 £
Glen Group	371,269	223,381*	–
Glen Communications	780,463	580,191	333,993
Eclectic (from 15 February 2006)	769,839	–	–
<b>Total operating charges</b>	<b>1,921,571</b>	<b>803,572</b>	<b>333,993</b>

\*10 months

Over the summer we have centralised, within Glen Group, certain group services particularly financial management and accounting, which had previously been undertaken by the individual operating companies.

Overall, the group has incurred an operating loss before interest of £589,222 for the full year. The operating loss in the first half of the year was £372,674, with the second half at £216,548 a positive reduction of over 40% in the second half. After net interest and taxation, the retained loss for the year was £613,591 (2005: £570,597).

### Business Review

An analysis of the operating losses over the last three years is as follows:

Operating loss	30 September 2006 £	30 September 2005 £	30 September 2004 £
Glen Group	(371,269)	(223,381)*	–
Glen Communications	(365,894)	(337,823)	(205,162)
Eclectic (from 15th February 2006)	147,941	–	–
<b>Total operating loss</b>	<b>(589,222)</b>	<b>(561,204)</b>	<b>(205,162)</b>

\*10 months

### Financing

In October 2005, we raised £250,000 of additional working capital by the issue of 10,000,000 new shares at 2.50p each. In February 2006, we raised £2,500,000 through the issue of 250,000,000 new shares at 1.00p each as further capital to finance the acquisition of Eclectic Holdings Limited and to provide working capital for the group. The consideration for this transaction, which constituted a reverse takeover under the AIM rules, consisted of two elements: a first consideration, payable in cash and shares at completion, and a second consideration, payable in shares, based on an earn out formula. As indicated in the Chairman's statement, the second consideration has been earned in full which takes the cost of this acquisition to £3m, excluding acquisition costs. Because of our size, the costs of the acquisition, placing and re-admission to AIM which we concluded on 15 February 2006 were material amounting to approximately £500,000 in fees and other costs. The costs of the acquisition itself, amounting to approximately £71,242, have been allocated to goodwill, with the balance deducted from the share premium account. The market value of the first and second consideration shares issued and to be issued in respect of the acquisition of Eclectic Holdings Limited differs from the value agreed with the vendors. This difference of £417,221 has been credited to goodwill.

The consideration for the acquisition of Explore IT Limited in early September 2006 was £115,000 which was funded from internal resources and existing bank facilities. We have allocated £100,000 of this to intangible assets and the balance to goodwill. The costs of acquisition, including due diligence and legal fees, amounted to a further £49,117, which has been added to the goodwill arising on the acquisition.

At 30 September 2006, we had net borrowings of £665,213. This included net overdrafts of £475,547. At the same date, our overdraft facilities (excluding loans) totalled £620,000. Since the year end we have further increased our bank facilities (excluding loans), which now stand at approximately £1,000,000.

**Outlook and opportunities**

The markets in which we operate are significant, dynamic and continue to grow. These markets are fuelled by new technology, regulatory requirements and the need for businesses to be competitive. The Board believe that these growing markets create opportunity and we look forward to servicing these opportunities and continuing to build the business.

I would like to thank my team for the very significant efforts that have been made over the last year to change fundamentally the size and scope of the business and establish a sound platform for future growth.

**Graham J Duncan**

Chief Executive Officer

12 January 2007

## CORPORATE GOVERNANCE

The Board is committed to ensuring that proper standards of corporate governance operate and, having regard to the provisions of the Combined Code, insofar as is appropriate, has established governance procedures and policies that are considered appropriate to the nature and size of the group.

### **Directors and the Board**

The Board directs the group's activities in an effective manner through regular monthly Board meetings and monitors performance through timely and relevant reporting procedures. Where it deems it necessary the Board requests reports on specific areas outwith the normal reporting regime. All Directors have access to advice from the Company Secretary and, if required, independent professionals at the Company's expense. Training is available for new and other Directors as necessary.

The Board at present comprises one Executive and two Non-Executive Directors. The Non-Executive Directors are regarded as independent of management and any business or other relationships which could interfere with the exercise of their independent judgement. The roles of Chairman and Chief Executive are separate appointments and it is Board policy that this will continue.

The Board has established two committees, the audit committee and the remuneration committee. It will also set up a nominations committee when the need arises. Membership of both the audit committee and the remuneration committee is made up of the two Non-Executive Directors. Eric M Hagman is Chairman of the audit committee and Peter J Ford of the remuneration committee. A separate report on Directors' remuneration is set out on pages 6 to 7.

Under the Company's articles of association, the nearest number to one third of the Board shall retire each year by rotation.

### **Accountability and audit**

The Board considers that the annual report presents a balanced and understandable assessment of the group's performance and prospects.

The audit committee has written terms of reference setting out its authority and duties and has meetings, at which Executive Directors also have the right to attend, at least two times a year with the external auditors.

The audit committee reviews the independence and objectivity of the external auditors. The committee reviews the nature and amount of the non-audit work undertaken by the auditors to satisfy itself that there is no effect on their independence. The committee is satisfied that Grant Thornton UK LLP are independent.

### **Going concern**

On the basis of a review of facilities available to the group together with a review of forecasts, the Directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### **Internal financial control**

The group has established policies covering the key areas of internal financial control and the appropriate procedures, controls, authority levels and reporting requirements which must be applied throughout the group. The key procedures that have been established in respect of internal financial control are as follows:

- Financial reporting: there is in place a comprehensive system of financial reporting based on the annual budget which the Board approves. The results for the group as a whole and each business sector are reported monthly, along with an analysis of key variances. Year-end forecasts are updated on a regular basis.
- Investment appraisal: applications for capital expenditure are made in a format which places emphasis on the commercial and strategic as well as the financial justification. All significant projects require specific Board approval.

No system can provide absolute assurance against material misstatement or loss but the group's systems are designed to provide reasonable assurance as to the reliability of financial information, ensuring proper control over income and expenditure, assets and liabilities.

### **Relations with shareholders**

The Company values the views of its shareholders and recognises their interest in the group's strategy and performance, Board membership and quality of management.

The AGM will be used to communicate with all shareholder and investor groups, and they are encouraged to participate. The Chairmen of the audit and remuneration committees are available to answer questions. Separate resolutions are proposed on each issue so that they can be given proper consideration and there is a resolution to receive the annual report and accounts. The Company counts all proxy votes and will indicate the level of proxies lodged on each resolution, after it has been dealt with by a show of hands.

The group intends to use its website [www.glengroup.co.uk](http://www.glengroup.co.uk) as a means of providing information to shareholders and other related parties. The Company's annual report and accounts, interim reports and other relevant announcements are now available direct from the website of the London Stock Exchange under symbol GLN, free of charge.

## REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION

The committee has given consideration to the Combined Code issued by the Financial Services Authority in framing its remuneration policy. As the Company is quoted on AIM, it is not required to comply with the provisions of Schedule 7(A) of the Companies Act 1985. The following disclosures are voluntary.

### Remuneration committee

The remuneration committee determines, on behalf of the Board, the group's policy for Executive remuneration and the individual remuneration packages for Executive Directors. In setting the group's remuneration policy, the remuneration committee considers a number of factors, including the following:

- salaries and benefits available to Executive Directors of comparable companies;
- the need to attract and retain Executives of an appropriate calibre; and
- the continued commitment of Executives to the group's success through appropriate incentive schemes.

The committee meets at least once each year.

### Remuneration of the Executive Director

The remuneration package of the Executive Director comprises the following elements:

#### • Base salary

The remuneration committee sets a base salary to reflect responsibilities and the skill, knowledge and experience of the individual. The Executive Director does not receive a Director's fee.

#### • Bonus scheme

The Executive Director is eligible to receive a bonus of up to 100 per cent. of base salary dependent on individual and group performance relative to the annual budgets. Bonus payments are at the discretion of the remuneration committee.

#### • Car allowance and other benefits

The Executive Director is entitled to a car allowance. The Company pays private health care for the Executive Director and his family. The Executive Director also has life and disability cover.

#### • Pensions

Pension contributions to the Executive Director's personal pension arrangements are payable by the group at the rate of 12.5% of base salary.

The Executive Director is engaged under a service contract which requires a notice period of 12 months.

### Remuneration of Non-Executive Directors

The fees paid to the Non-Executive Directors are determined by the Board and include a basic fee. Due to the size of the group no additional fees are paid in respect of committee chairmanships and they are not entitled to receive any bonus or other benefits, other than at the discretion of the Board. The Chairman has been awarded share options.

Non-Executive Directors' letters of appointment are on a three month rolling basis.

### Directors' remuneration

Details of individual Directors' emoluments for the year are as follows:

	Fees		Salaries		Pensions		Benefits		Totals	
	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005* £
<b>Non-Executive</b>										
E M Hagman	20,000	18,334	–	–	–	–	978	815	<b>20,978</b>	19,149
P J Ford	–	–	15,000	14,167	–	–	–	–	<b>15,000</b>	14,167
<b>Executive</b>										
G J Duncan	–	–	96,000	90,000	11,250	9,375	11,164	2,936	<b>118,414</b>	102,311
	<b>20,000</b>	18,334	<b>111,000</b>	104,167	<b>11,250</b>	9,375	<b>12,142</b>	3,751	<b>154,392</b>	135,627

\*2005 was a 10-month period.

Due to the significant changes to the business in the year ended 30 September 2006, particularly the acquisition of Eclectic Holdings Limited, no payments were made under the bonus scheme for the year ended 30 September 2006.

## REPORT OF THE BOARD TO THE MEMBERS ON DIRECTORS' REMUNERATION (CONTINUED)

Benefits includes the costs of share options issued to the Directors as follows:

Name of Director	2006 £	2005 £
E M Hagman	978	815
G J Duncan	7,294	–
	<b>8,272</b>	<b>815</b>

### Directors' interests in shares

The interests of the Directors in the shares of the Company at 30 September 2006 together with their interests at 1 October 2005 were as follows:

Name of Director	Number of ordinary shares	
	2006	2005
E M Hagman	3,333,000	–
G J Duncan	22,821,314	12,039,208
P J Ford	20,014,475	9,232,369

Of the 22,821,314 ordinary shares in which G J Duncan is interested, 4,422,324 (2005: 4,422,324) ordinary shares are registered in the name of Margaret H Duncan, Mr Duncan's wife, and 5,182,967 (2005: 4,682,967) ordinary shares are registered in the name of Duncan Ventures Limited, an entity in which Mr and Mrs Duncan are interested.

### Directors' interests in share options

The interests of the Directors in options over the ordinary shares of the Company at 30 September 2006 together with their interests at 1 October 2005 were as follows:

Name of Director	1 October 2005	Granted	Exercised	30 September 2006	Price	Date from which exercisable	Expiry date
E M Hagman	666,667	–	–	666,667	3.00p	1/12/2005	1/12/2014
G J Duncan	–	10,000,000	–	10,000,000	1.00p	13/02/2009	14/02/2016

The option granted to Mr Hagman was at the placing price on 1 December 2004, being the market value at the time of grant. There are no performance criteria. The option granted to Mr Duncan was at the placing price on 15 February 2006 when the acquisition of Eclectic Holdings Limited completed, being the market value at the time of grant. The exercise of Mr Duncan's option is conditional on achieving certain performance criteria agreed by the Remuneration Committee.

Two Directors of the Company's subsidiaries have been granted options over the shares of the Company as follows:

Name of Director	1 October 2005	Granted	Exercised	30 September 2006	Price	Date from which exercisable	Expiry date
J Nicoll	–	7,500,000	–	7,500,000	1.00p	13/02/2009	14/02/2016
C Saunderson	–	7,500,000	–	7,500,000	1.00p	13/02/2009	14/02/2016

The options granted to Mr Nicoll and Mr Saunderson were at the placing price on 15 February 2006 when the acquisition of Eclectic Holdings Limited completed, being the market value at the time of grant. The exercise of these options is conditional on achieving certain performance criteria agreed by the Remuneration Committee.

No other Directors have been granted share options in the shares of the Company or other group companies. The mid-market price of the Company's shares at the end of the financial period was 0.875p and the range of prices during the period was between 0.625p and 3.375p.

By order of the Board

**Peter J Ford**

Chairman, Remuneration Committee  
12 January 2007

## DIRECTORS' REPORT

The Directors present their annual report on the affairs of the group, together with the financial statements and auditors' report, for the year ended 30 September 2006.

### Principal activity

The principal activity of the group is the provision of IT and communications solutions to businesses within the United Kingdom.

### Transition to International Financial Reporting Standards

The group is reporting under IFRS for its results to 30 September 2006 and has restated the results to 30 September 2005 under IFRS. Further details of the impact of this change are shown in note 2.

### Business review and future developments

A review of the results and development of the business for the year and of future developments in the business is contained within the Chairman's statement on page 1 and the Business review on pages 2 to 4. The major key performance indicators that the Directors' monitor are turnover and gross margin, both overall and by type of business.

### Results and dividends

The group's loss on ordinary activities before taxation was £613,591 (2005: £570,597). The audited financial statements of the group are set out on pages 12 to 37. The Directors do not propose a dividend for the year ended 30 September 2006 (2005: nil).

### Directors and their interests

The present membership of the Board is set out on page 11. In accordance with the Company's articles of association, Graham J Duncan will offer himself for re-election at the forthcoming annual general meeting. Details of Directors' interests in the Company's shares are set out in the report of the Board to the members on Directors' remuneration on pages 6 to 7.

### Acquisitions

During the year the Company acquired the entire issued share capital of Eclectic Holdings Limited, an IT services business focused on the corporate market, further details of which are contained in note 3.1.

Also during the year Glen Communications Limited acquired the entire issued share capital of Explore IT Limited, an IT services business which aims its portfolio at small and medium sized businesses, further details of which are contained in note 3.2.

### Substantial shareholdings

At 12 January 2007 the following interests in three per cent or more of the issued ordinary share capital had been notified to the Company:

	Number of ordinary shares	Percentage held
G J Duncan	22,821,314	6.96%
P J Ford	20,014,475	6.11%
Stancroft Trust Limited	20,000,000	6.10%

### Share capital

The share capital during the year and the number of ordinary shares reserved for issue are shown in note 20 to the consolidated financial statements.

### Employee involvement

Glen Group plc and Glen Communications Limited use an in-house Maximizer CRM system as a source of information on the group and developments within the group including updates on the group's strategy and details of new products and services provided by the group. Eclectic Group Limited utilise their own secure intranet system to disseminate relevant information to all staff. Information about all products and services is also available on the web sites of the operating companies.

### Employment of disabled persons

Full and fair consideration is given to applications for employment made by disabled persons having regard to their particular aptitudes and abilities. Appropriate training is arranged for disabled persons, including retraining for alternative work of employees who become disabled, to promote their career development within the organisation.

**Supplier payment policy and practice**

The Company and its subsidiaries agree the terms of payment when negotiating the terms and conditions for their transactions with their suppliers. Payment is made in compliance with those terms, subject to the terms and conditions of the relevant transaction having been met by the supplier. Trade creditor days of the group at 30 September 2006, calculated in accordance with the requirements of the Companies Act 1985, were 89 days (2005 – 36 days). This represents the ratio, expressed in days, between the amounts invoiced to the Company and its subsidiaries in the year by their suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

**Political and charitable donations**

The group made no charitable or political donations in either the current or the previous year.

**Directors' statement**

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

**Auditors**

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act and a resolution will be proposed at the forthcoming annual general meeting.

By order of the Board

**Peterkins**

Company Secretary  
12 January 2007

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law in the United Kingdom 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 as at the end of the financial year and of the profit or loss of the group for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 the group's system of internal financial control, for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## BOARD OF DIRECTORS

**Eric Martin Hagman CBE CA**, Non-Executive Chairman. Aged 60

Eric Hagman retired from the UK practice of Andersen in April 2002 after 32 years with the firm. He was latterly UK Senior Partner for Global Markets, and over the years held a number of senior positions including Regional Managing Partner.

Eric Hagman received a CBE in the 2003 Queen's Birthday Honours and is currently the Scottish Non-Executive Chairman of AON Limited's Risk Services division in Scotland, a Non-Executive Director of British Polythene Industries plc, Scottish American Investment Company PLC and a Board member of the Royal College of Art in London. He is a former member of the Council of CBI Scotland and of the Boards of Scottish Enterprise and Scottish Financial Enterprise.

**Graham John Duncan MA CA**, Chief Executive Officer. Aged 55

Graham J Duncan is the group's founder and Chief Executive. After graduating he trained to become a Chartered Accountant and qualified in 1975. He left the profession in 1984 to become a Director of the Company which had been awarded the franchise for broadband cable in the city of Aberdeen. After 10 years of growth both organically and by acquisition the group, later renamed Atlantic Telecom Group PLC, listed its shares on the Official List in London in January 1995. Over the next several years Atlantic grew rapidly and by 2000 it was building or operating "last mile" telecommunication networks in three European countries, employing over 1,100 people.

Graham J Duncan has also been Non-Executive Chairman of AIM listed Host Europe PLC (subsequently acquired by Pipex Communications plc) and a Non Executive Director of two quoted investment trusts.

**Peter James Ford**, Non-Executive Director. Aged 49

Peter Ford joined the family business of Ford's the Bakers in 1976. Ford's the Bakers was sold to Lynedale Foods in 1999. Peter Ford has been, in recent years, an investor in a number of companies in Scotland and has held directorships with Paragon Products (UK) Ltd, East Lothian Economic Developments Ltd (now called East Lothian Investments Limited), Thomas James Developments Ltd, and Zentel Telecom Group PLC. More recently he has been acting as an adviser to a number of businesses in the food sector. In 1999 he was elected as a member of East Lothian Council, a position that he still holds.

## REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF GLEN GROUP PLC

We have audited the group financial statements of Glen Group plc for the year ended 30 September 2006 which comprise the principal accounting policies, the group income statement, the group balance sheet, the group cash flow statement, the group statement of changes in shareholders' equity and notes 1 to 25. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent Company financial statements of Glen Group plc for the year ended 30 September 2006 and the information in the Report of the Board on Directors' Remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Directors and auditors**

The Directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and the Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the Directors' Report, the Chairman's Statement, the Business Review, Report of the Board to the members on Directors' remuneration and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

### **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 group financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group'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 group 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 group financial statements.

**Opinion**

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the group's affairs as at 30 September 2006 and of its loss for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

**Separate opinion in relation to IFRS**

As explained in note 1 to the group financial statements, the group in addition to complying with its legal obligation to comply with IFRS as adopted by the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRS, of the state of the group's affairs as at 30 September 2006 and of its loss for the year then ended.

**Grant Thornton UK LLP**

Registered Auditor  
Chartered Accountants  
Edinburgh  
12 January 2007

## PRINCIPAL ACCOUNTING POLICIES

### a) Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the group are set out below.

The policies have changed from the previous year when the financial statements were prepared under applicable UK GAAP. The changes to accounting policies are explained in note 2, together with the reconciliation of opening balances. The date of transition to IFRS was 1 October 2004.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements.

### b) Basis of consolidation

The group financial statements consolidate those of the Company and all of its subsidiary undertakings drawn up to 30 September 2006. Subsidiaries are entities over which the group has the power to control the financial and operating policies so as to obtain benefits from its activities. The group obtains and exercises control through voting rights.

Unrealised gains on transactions between the group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the group accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

### c) Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement. Refer to Principal Accounting Policy (i) for a description of impairment testing procedures.

### d) Revenue

Revenue is the total amount receivable by the group in the ordinary course of business with outside customers for goods supplied as principal and for services provided, excluding VAT and trade discounts. Turnover from mobile commissions is recognised when the customers are connected to the relevant network. Turnover from IT services are billed to clients in accordance with agreed terms, in line with performance of the contract.

### e) Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. When exchange differences result from the translation of foreign currency borrowings raised to acquire foreign assets they are taken to reserves and offset against the differences arising from the translation of those assets. All other exchange differences are dealt with through the profit and loss account.

### f) Property, plant and equipment

Property, plant and equipment, which include motor vehicles, are stated at cost, net of depreciation and any provision for impairment.

### g) Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale or revaluation of held for sale assets is included in "other income" or "other expense" in the income statement. Any revaluation surplus remaining in equity on disposal of the asset is transferred to the profit and loss reserve.

## PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### **h) Depreciation**

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Plant and equipment – over three years

Material residual value estimates are updated as required, but at least annually, whether or not the asset is revalued.

### **i) Impairment testing of goodwill, other intangible assets and property, plant and equipment**

Amortisation on intangible assets is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset.

Goodwill and other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses are credited to the carrying amount of the relevant asset. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

### **j) Leased assets**

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability.

The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight line basis over the lease term. Lease incentives are spread over the term of the lease.

### **k) Inventories**

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items and the cost is calculated using the FIFO basis.

### **l) Taxation**

Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Temporary differences include those associated with shares in subsidiaries and joint ventures if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income tax credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

## PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### **m) Financial assets**

Financial assets, other than hedging instruments, are divided into the following categories: loans and receivables; financial assets at fair value through the profit or loss; available-for-sale financial assets; and held-to-maturity investments. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised when the group becomes a party to the contractual provisions of the instrument. All financial assets are initially recognised at fair value, plus transaction costs, unless they are classified as at fair value through profit or loss. Financial assets classified as at fair value through profit or loss are initially recognised at fair value.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date.

Interest and other cash flows resulting from holding financial assets are recognised in the income statement when receivable, regardless of how the related carrying amount of financial assets is measured.

Financial assets at fair value through profit or loss include financial assets that are either classified as held for trading or are designated by the entity as at fair value through profit or loss upon initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Provision against trade receivables is made when objective evidence is received that the group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

### **n) Cash and cash equivalents**

Cash and cash equivalents comprise cash, and cash available at less than 24 hours notice at no penalty.

### **o) Financial liabilities**

Financial liabilities are obligations to pay cash or other financial instruments and are recognised when the group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in "finance cost" in the income statement. Bank loans are raised for support of long term funding of the group's operations. They are recognised as proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, and direct issue costs are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Dividend distributions payable to equity shareholders are included in "other short-term financial liabilities" when the dividends are approved in general meeting prior to the balance sheet date.

### **p) Equity**

Equity comprises the following:

"Share capital" represents the nominal value of equity shares.

"Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.

"Shares to be issued" represents the maximum value of shares to be issued in respect of the earn out consideration payment due to the former shareholders of Eclectic Holdings Limited.

"Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised.

"Fair Value Adjustment" represents the difference between the market value at the date of issue of the first and second consideration shares and the value agreed with the vendors.

"Profit and loss reserve" represents retained profits and accumulated losses.

## PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### q) Employee benefits

- Defined Contribution Pension Plan

A defined contribution plan is a pension plan under which the group pays a fixed contribution into an independent entity. The group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

- Share-Based Payment

All material share-based payment arrangements are recognised in the financial statements. All goods and services received in exchange for the grant of any share-based remuneration are measured at their fair values. Fair values of employee services are indirectly determined by reference to the fair value of the share options awarded. Their value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All share-based remuneration is ultimately recognised as an expense in the income statement with a corresponding credit to "other reserve".

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital.

### r) Government grants and assistance

Government grants in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account by equal annual instalments over the expected useful lives of the relevant assets.

Government assistance of a revenue nature is credited to the profit and loss account in the same period as the related expenditure.

**CONSOLIDATED INCOME STATEMENT**

for the year ended 30 September 2006

	Note	2006 £	2005 £
<b>Revenue</b>			
Continuing operations	4	942,582	466,950
Discontinued operations		22,519	71,447
Acquisitions		2,733,144	–
		3,698,245	538,397
Cost of sales		(2,365,896)	(296,029)
<b>Gross profit</b>		1,332,349	242,368
Other operating charges	5	(1,921,571)	(803,572)
<b>Operating loss</b>		(589,222)	(561,204)
Interest payable		(23,620)	(16,109)
Interest receivable		3,054	6,716
Finance costs	7	(20,566)	(9,393)
<b>Loss before taxation</b>		(609,788)	(570,597)
Taxation	21	(3,803)	–
<b>Loss for the year</b>		(613,591)	(570,597)
<b>Loss per share</b>	9		
– basic and diluted		(0.28)p	(1.18)p

There are no other gains and losses other than the loss for the year

See accompanying notes to the financial statements.

**CONSOLIDATED BALANCE SHEET**

as at 30 September 2006

	Note	2006 £	2005 £
<b>Assets</b>			
Non-current assets			
Goodwill	10	3,562,740	935,315
Intangible assets	12	100,000	–
Property, plant and equipment	13	112,667	50,317
<b>Total non-current assets</b>		<b>3,775,407</b>	<b>985,632</b>
<b>Current assets</b>			
Inventories	15	26,752	10,113
Trade and other receivables	16	1,571,471	208,626
Cash and cash equivalents	17	1,075	211,160
<b>Total current assets</b>		<b>1,599,298</b>	<b>429,899</b>
<b>Total assets</b>		<b>5,374,705</b>	<b>1,415,531</b>
Liabilities			
Current liabilities			
Short term borrowings		578,731	68,169
Trade and other payables		939,817	126,583
Accruals and deferred income		238,247	78,840
Other creditors		164,139	73,217
<b>Total current liabilities</b>	18	<b>1,920,934</b>	<b>346,809</b>
Non-current liabilities			
Long-term borrowings	19	87,557	58,516
<b>Total non-current liabilities</b>		<b>87,557</b>	<b>58,516</b>
<b>Total liabilities</b>		<b>2,008,491</b>	<b>405,325</b>
<b>Net assets</b>		<b>3,366,214</b>	<b>1,010,206</b>
Equity			
Share capital	20	3,276,831	600,000
Share premium account	20	860,817	957,541
Shares to be issued	20	787,500	–
Other reserve	20	20,028	815
Fair value adjustment	20	(417,221)	–
Profit and loss reserve		(1,161,741)	(548,150)
<b>Total equity</b>		<b>3,366,214</b>	<b>1,010,206</b>

See accompanying notes to the financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2006

	Share capital £	Share premium £	Share to be issued £	Other reserve £	Fair value £	Retained earnings £	Total £
<b>At 1 October 2004</b>	<b>250,000</b>	<b>500,000</b>	–	–	–	<b>22,447</b>	<b>772,447</b>
<b>Recognised directly in equity</b>							
Share issue	350,000	–	–	–	–	–	350,000
Premium on share issue	–	700,000	–	–	–	–	700,000
Expenses incurred on share issue	–	(242,459)	–	–	–	–	(242,459)
Share-based payments	–	–	–	815	–	–	815
<b>Net change directly in equity</b>	<b>350,000</b>	<b>457,541</b>	–	<b>815</b>	–	–	<b>808,356</b>
Loss for the year	–	–	–	–	–	(570,597)	(570,597)
Total movements	350,000	457,541	–	815	–	(570,597)	237,759
<b>Equity at 30 September 2005</b>	<b>600,000</b>	<b>957,541</b>	–	<b>815</b>	–	<b>(548,150)</b>	<b>1,010,206</b>
<b>At 1 October 2005</b>	<b>600,000</b>	<b>957,541</b>	–	<b>815</b>	–	<b>(548,150)</b>	<b>1,010,206</b>
<b>Recognised directly in equity</b>							
Share issue	2,676,831	–	–	–	(417,221)	–	2,259,610
Shares to be issued as part of acquisition	–	–	787,500	–	–	–	787,500
Premium on share issue	–	335,669	–	–	–	–	335,669
Expenses incurred on share issue	–	(432,393)	–	–	–	–	(432,393)
Share-based payments	–	–	–	19,213	–	–	19,213
<b>Net change directly in equity</b>	<b>2,676,831</b>	<b>(96,724)</b>	<b>787,500</b>	<b>19,213</b>	<b>(417,221)</b>	–	<b>2,969,599</b>
Loss for the year	–	–	–	–	–	(613,591)	(613,591)
Total movements	2,676,831	(96,724)	787,500	19,213	(417,221)	(613,591)	2,356,008
<b>Equity at 30 September 2006</b>	<b>3,276,831</b>	<b>860,817</b>	<b>787,500</b>	<b>20,028</b>	<b>(417,221)</b>	<b>(1,161,741)</b>	<b>3,366,214</b>

**CONSOLIDATED CASH FLOW STATEMENT**

for the year ended 30 September 2006

	2006 £	2005 £
Cash flows from operating activities		
Operating loss	(589,222)	(561,204)
Adjustments for:		
Depreciation and amortisation	49,596	17,515
Other non-cash items	19,213	815
(Increase)/decrease in inventories	(16,639)	(1,877)
Increase in trade and other receivables	(1,362,845)	(145,767)
Increase in trade payables, accruals and other creditors	1,099,760	166,596
Net cash outflow from operating activities	(800,137)	(523,922)
Cash flows from investing activities		
Purchase of property, plant and equipment	(56,573)	(56,492)
Sale of property, plant and equipment	414	190
Acquisition of subsidiary, net of cash acquired	(2,412,933)	–
Net cash used in investing activities	(2,469,092)	(56,302)
Cash flows from financing activities		
Interest paid (net)	(20,566)	(9,393)
Issue of shares	3,012,500	1,050,000
Receipt of bank finance	84,215	–
Repayment of borrowing	(32,612)	(16,486)
Repayment of Directors' and shareholders' loans	(40,000)	7,270
Former subsidiary Director's loan notes less repayments	50,000	–
Receipt from finance leases less repayments	9,547	–
Expenses paid in connection with share issues	(432,393)	(242,459)
Net cash used in financing activities	2,630,691	788,932
Net (decrease)/increase in cash	(638,538)	208,708
Cash and bank overdrafts at beginning of period	162,991	(45,717)
Cash and bank overdrafts at end of period	475,547	162,991
Cash and bank overdrafts comprise:		
Cash and cash equivalents	1,075	211,160
Bank overdrafts	(476,622)	(48,169)
	475,547	162,991

**Analysis of changes in net funds**

	At 30 September 2005 £	Cash flows £	At 30 September 2006 £
Cash	211,160	(210,085)	1,075
Bank overdraft	(48,169)	(428,453)	(476,622)
	162,991	(638,538)	(475,547)
Debt	(118,516)	(71,150)	(189,666)
Net funds	44,475	(709,688)	(665,213)

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

The consolidated financial statements of the group have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS). Glen Group plc has adopted IFRS for the first time in its consolidated financial statements for the year ended 30 September 2006.

The transition to IFRS reporting has resulted in a number of changes in the reported financial statements, notes thereto and accounting principles compared to previous annual reports. Note 2 provides further details on the transition from UK GAAP to IFRS.

Glen Group plc, a public limited company, is the group's ultimate parent company. It is incorporated in England. The address of Glen Group plc's registered office is 8-10 New Fetter Lane, London, EC4A 1RS. Its principal place of business is Glen House, 6 Straiton View, Straiton Business Parc, Edinburgh, EH20 9QZ.

The financial statements for the year ended 30 September 2006 (including the comparatives for the year ended 30 September 2005), were approved by the board of Directors on 12 January 2007.

### 2. Transition to International Financial Reporting Standards

The transition from previous GAAP to IFRS has been made in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

The group's consolidated financial statements for 2006 and the comparatives presented for 2005 comply with all presentation and disclosure requirements of IFRS applicable for accounting periods commencing on or after 1 October 2004.

The following reconciliations and explanatory notes thereto describe the effects of the transition on the IFRS opening balance sheet as at 1 October 2004 and for the financial year 2006. All explanations should be read in conjunction with the IFRS accounting policies of Glen Group plc as disclosed in the Principal Accounting Policies. Note 2a comments on the group's new balance sheet structure. No adjustments to Glen Group plc's share and additional paid-in capital were necessary in the opening IFRS balance sheet as at 1 October 2004 and the comparatives prepared for the year ended 30 September 2005.

The reconciliation of the group's equity reported under previous GAAP to its equity under IFRS may be summarised as follows:

#### Reconciliation of equity under UK GAAP to equity under IFRS

	2006 £	2005 £
Shareholders equity under UK GAAP	2,865,199	91,970
Adjustment to goodwill relating to reversal of merger accounting	916,339	916,339
Amortisation of goodwill reversed	1,897	1,897
Fair value adjustment	(417,221)	–
Shareholders equity under IFRS	3,366,214	1,010,206

The reconciliation of the group's loss reported under previous GAAP to its loss under IFRS may be summarised as follows:

#### Reconciliation of loss under UK GAAP to loss under IFRS

	2006 £	2005 £
Loss attributable to shareholders under UK GAAP	(596,275)	(571,679)
Amortisation of goodwill	1,897	1,897
Share options expensed through income statement	(19,213)	(815)
Loss attributable to shareholders under IFRS	(613,591)	(570,597)

**a) Merger accounting**

Following the adoption of IFRS, the Company has unwound the merger accounting treatment of the acquisition of Glen Communications Limited in November 2004. This has created additional goodwill on the consolidated balance sheet of £916,339.

**b) Goodwill**

Under IFRS Goodwill is not amortised. Instead Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. Note 11 contains further information on the treatment of Goodwill under IFRS. As required by IFRS 1, Goodwill recognised under previous GAAP has been tested for impairment at the date of transition to IFRS. No impairment loss was required to be recognised. In accordance with IFRS 1, this amount has been considered the carrying amount of Goodwill in the opening IFRS balance sheet.

For the year ended 30 September 2006, Goodwill is not amortised under IFRS. As a result the amortisation of Goodwill under UK GAAP was reversed in the reconciliation from UK GAAP to IFRS figures with a corresponding reduction of expenses (see reconciliation as at 30 September 2005.)

**3. Basis of consolidation**

**3.1. Acquisition of Eclectic Holdings Limited**

On 15 February 2006 the Company acquired the entire share capital of Eclectic Holdings Limited and its subsidiaries, a provider of business intelligence consultancy and other IT services to the corporate market. The maximum purchase consideration was £3,000,000 of which £2,212,500 was paid at completion and the balance of up to £787,500 (the second consideration) payable when the group issued its preliminary announcement for the year ended 30 September 2006. The second consideration payment was dependent on Eclectic Holdings Limited's profit before interest, taxation and amortisation ("PBITA") for the 12-month period ended 31 July 2006 in accordance with the following formula:

- PBITA of between £250,000 and £299,999, the second consideration is £196,875
- PBITA of between £300,000 and £349,999, the second consideration is £393,750
- PBITA of between £350,000 and £399,999, the second consideration is £590,625
- PBITA of £400,000 and above, the second consideration is £787,500

The entire second consideration is payable in shares in Glen Group plc subject to a maximum of 78,750,000 shares.

The PBITA for the measurement period was £414,842. Accordingly the Directors have accrued the full amount of the second consideration, totalling £787,500. In accordance with the share price formula included in the acquisition agreement, the Company will be issuing 73,825,818 shares at 1.0667p per share to satisfy the additional consideration.

The book values of the net assets of Eclectic Holdings Limited and its subsidiaries on acquisition were £1,089,270 and, having been adjusted for goodwill, have been fair valued as follows:

	£
<hr/>	
<b>Assets</b>	
Non-current assets	
Property, plant and equipment	40,211
<hr/>	
Total non-current assets	40,211
<hr/>	
<b>Current assets</b>	
Inventories	4,495
Trade and other receivables	1,116,475
Cash and cash equivalents	28,626
<hr/>	
Total current assets	1,149,596
<hr/>	
<b>Total assets</b>	<b>1,189,807</b>

**3.1. Acquisition of Eclectic Holdings Limited (continued)**

£

<b>Liabilities</b>	
Current liabilities	
Short term borrowings	144,028
Trade and other payables	534,415
Accruals and deferred income	370,335
Other creditors	50,000
Total current liabilities	1,098,778
Non-current liabilities	
Long-term borrowings	25,000
Total non-current liabilities	25,000
<b>Total liabilities</b>	<b>1,123,778</b>
<b>Net assets</b>	<b>66,029</b>

Goodwill on acquisition has been calculated as follows:

£

Purchase price and acquisition expenses	3,071,242
Net assets acquired	(66,029)
Cash received from Eclectic employee options	(17,600)
	2,987,613
Fair value adjustment – first consideration	(128,046)
Fair value adjustment – second consideration	(289,175)
Fair value adjustment	(417,221)
<b>Goodwill</b>	<b>2,570,392</b>

Turnover and operating profit of the companies acquired for the post acquisition period were £2,733,143 and £147,941 respectively. For the period 1 October 2005 to 30 September 2006 the turnover was £4,576,512 and the operating profit was £347,839.

The Directors are satisfied that there are no intangible assets that should be recognised on the acquisition of Eclectic Holdings Ltd as the inherent value of the company is represented by the skill and knowledge of the employees who provide consultancy and training services.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3.2. Acquisition of Explore IT Limited

On 4 September 2006, Glen Communications Limited acquired 100% of the share capital of Explore IT Limited, a company registered in England. The total cost of the acquisition includes the components stated below. The purchase price of £115,000 was settled in cash. The book values of the net assets of Explore IT Limited on acquisition were £7,084 and have been fair valued at the same amount. This can be analysed as follows:

	£
<b>Assets</b>	
Non-current assets	
Property, plant and equipment	5,179
Total non-current assets	5,179
<b>Current assets</b>	
Trade and other receivables	69,952
Cash and cash equivalents	5,974
Total current assets	75,926
<b>Total assets</b>	<b>81,105</b>
<b>Liabilities</b>	
Current liabilities	
Short term borrowings	9,138
Trade and other payables	41,778
Accruals and deferred income	16,956
Other creditors	6,149
Total current liabilities	74,021
Total non-current liabilities	–
<b>Total liabilities</b>	<b>74,021</b>
<b>Net assets</b>	<b>7,084</b>

Goodwill on acquisition has been calculated as follows:

	£
Purchase price and acquisition expenses	164,117
Net assets acquired	(7,084)
	157,033
Transferred to intangibles	(100,000)
<b>Goodwill</b>	<b>57,033</b>

Turnover and operating profit of the company acquired for the post acquisition period were £44,219 and £10,539 respectively. For the period 1 October 2005 to 30 September 2006 the turnover was £506,676 and the operating loss was £22,325.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4. Segment Reporting

#### 4.1.1 Analysis of revenue

	2006 £	2005 £
<b>By business sector</b>		
Mobile services	631,003	321,154
IT	3,041,633	143,675
Phone cards – discontinued operations	22,519	71,447
Other communication services	3,090	2,121
<b>Total revenue</b>	<b>3,698,245</b>	<b>538,397</b>
<b>By destination</b>		
United Kingdom	3,698,245	538,397
<b>Total revenue</b>	<b>3,698,245</b>	<b>538,397</b>
<b>By origin</b>		
Glen Communications – continuing operations	942,582	466,950
Glen Communications – discontinued operations	22,519	71,447
Eclectic	2,733,144	–
<b>Total revenue</b>	<b>3,698,245</b>	<b>538,397</b>

#### 4.1.2. Analysis of operating loss

	2006 £	2005 £
<b>By business sector</b>		
Mobile services	(368,510)	(337,296)
IT	(199,272)	(147,441)
Phone cards – discontinued operations	(10,920)	(74,263)
Other communication services	(10,520)	(2,204)
<b>Operating loss</b>	<b>(589,222)</b>	<b>(561,204)</b>
<b>By destination</b>		
United Kingdom	(589,222)	(561,204)
<b>Operating loss</b>	<b>(589,222)</b>	<b>(561,204)</b>
<b>By origin</b>		
Glen Group	(371,269)	(223,381)
Glen Communications	(365,894)	(337,823)
Eclectic	147,941	–
<b>Operating loss</b>	<b>(589,222)</b>	<b>(561,204)</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 4.2. Analysis of assets and liabilities

	Holding company £	SME communications and IT services £	Corporate IT services £
By business sector			
Non-current assets			
Investment in subsidiaries	4,621,242	176,009	1,023,241
Property, plant and equipment	3,499	71,930	37,237
<b>Total non-current assets</b>	<b>4,624,741</b>	<b>247,939</b>	<b>1,060,478</b>
Current assets			
Inventories	–	11,175	15,577
Trade and other receivables	435,014	430,597	469,187
Cash and cash equivalents	–	1,075	–
<b>Total current assets</b>	<b>435,014</b>	<b>442,847</b>	<b>1,484,764</b>
<b>Total assets</b>	<b>5,059,755</b>	<b>690,786</b>	<b>2,545,242</b>
Liabilities			
Current liabilities			
Short-term borrowings	12,996	82,424	475,600
Trade and other payables	45,677	205,246	688,893
Accruals and deferred income	21,967	872,043	211,847
Other creditors	21,648	18,594	23,520
<b>Total current liabilities</b>	<b>102,288</b>	<b>1,178,308</b>	<b>1,399,860</b>
<b>Total non-current liabilities</b>	<b>4,000</b>	<b>39,537</b>	<b>44,019</b>
<b>Total liabilities</b>	<b>106,288</b>	<b>1,217,845</b>	<b>1,443,879</b>
<b>Net assets</b>	<b>4,953,467</b>	<b>(527,059)</b>	<b>1,101,363</b>

### 5. Other operating income and charges

	2006 £	2005 £
Administrative expenses	1,921,571	803,572

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 6. Operating loss

Operating loss is stated after charging:

	2006 £	2005 £
Depreciation of owned fixed assets	49,596	17,514
Other operating lease rentals:		
– buildings	29,691	15,730
– office equipment	–	1,032
Auditors' remuneration		
– company	11,500	9,000
– group	45,541	8,500
Non-audit fees		
– company	–	–
– group	2,500	675

In addition, remuneration paid to the auditors in respect of flotation and re-listing totalling £72,076 (2005: £26,651) has been included within the share premium account.

### 7. Finance income and finance costs

Finance cost includes all interest-related income and expenses. The following amounts have been included in the income statement line for the reporting periods presented:

	2006 £	2005 £
Interest income resulting from short-term bank deposits	3,054	6,716
Finance income	3,054	6,716
Interest expense resulting from:		
– bank loans	8,025	14,137
– directors' loans	500	–
– finance leasing liabilities	3,146	–
– loan notes	2,361	–
– bank overdrafts	9,588	1,972
Finance costs	23,620	16,109

### 8. Employee costs

#### 8.1. Directors and employees

The average number of staff employed by the group during the financial year amounted to:

	2006 No	2005 No
Number of management staff	6	5
Number of operational staff	40	12
Total	46	17

Employee numbers are stated including Directors but excluding fees payable to E M Hagman which are shown in note 8.4.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8.2. Employee remuneration

Expense recognised for employee benefits is analysed below:

	2006 £	2005 £
Wages and salaries	1,718,412	431,197
Share options costs	19,213	815
Social security costs	250,820	44,247
Pension – defined contribution plans	7,834	10,675
<b>Total</b>	<b>1,996,279</b>	<b>486,934</b>

### 8.3. Share-based remuneration

During the year the Company set up an EMI share option scheme as part of the remuneration of senior management. For the options to vest the senior management are required to reach certain performance targets applicable to the year ended 30 September 2009. The performance targets have been set by the remuneration committee of the Board. The maximum term of current arrangements under the EMI scheme ends on 14 February 2016. Upon vesting, each option allows the holder to purchase one ordinary share at the pre-agreed option price.

All share-based employee remuneration will be settled in equity. The group has no legal or other obligation to repurchase or settle the options.

Share options and the exercise price are as follows for the reporting periods presented:

	2006		2005	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
<b>Outstanding at 1 October</b>	<b>666,667</b>	<b>0.03</b>	–	–
Granted	25,000,000	0.01	666,667	0.03
<b>Outstanding at 30 September</b>	<b>25,666,667</b>	<b>0.01052</b>	<b>666,667</b>	<b>0.03</b>

As at 30 September 2006, Glen Group plc has granted the following outstanding share options:

	2006			2005		
	Number	Weighted average exercise price £	Weighted average remaining contractual life Months	Number	Weighted average exercise price £	Weighted average remaining contractual life Months
Earliest exercise date:						
2005	666,667	0.03	98	666,667	0.03	110
2009	25,000,000	0.01	112	–	–	–
	<b>25,666,667</b>			<b>666,667</b>		

The fair values of options granted during 2006 were determined using the Black-Scholes valuation model. Significant inputs into the calculation include a weighted average share price of 1.78p and exercise prices as illustrated above. Furthermore, the calculation takes into account no future dividends and a volatility rate of 50% based on expected share price. Risk-free interest rate was determined at 4.13%. It is assumed that options granted under the EMI scheme have an average remaining life of 66 months.

The underlying expected volatility was determined by reference to historical volatility of quoted comparable companies as well as giving consideration to the volatility of Glen Group plc itself.

In total £19,213 of employee remuneration expense has been included in the consolidated income statement for 2006 (2005: £815).

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 8.4. Directors

Details of individual Directors' emoluments for the year are as follows:

	Fees		Salaries		Pensions		Benefits		Totals	
	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £	2006 £	2005 £
<b>Non-Executive</b>										
E M Hagman	20,000	18,334	–	–	–	–	978	815	<b>20,978</b>	19,149
P J Ford	–	–	15,000	14,167	–	–	–	–	<b>15,000</b>	14,167
<b>Executive</b>										
G J Duncan	–	–	96,000	90,000	11,250	9,375	11,164	2,936	<b>118,414</b>	102,311
	<b>20,000</b>	18,334	<b>111,000</b>	104,167	<b>11,250</b>	9,375	<b>12,142</b>	3,751	<b>154,392</b>	135,627*

\*2005 was a 10-month period.

Benefits includes the costs of share options issued to the Directors as follows:

Name of Director	2006 £	2005 £
E M Hagman	978	815
G J Duncan	7,294	–
	<b>8,272</b>	<b>815</b>

### 9. Loss per share

	2006 £	2005 £
Loss attributable to ordinary shareholders	613,591	570,597
	No	No
Weighted average number of ordinary shares in issue	219,481,795	48,333,333
Loss per share (pence)	0.28	1.18

Both the basic and diluted earnings per share have been calculated using the net loss attributable to the shareholders of Glen Group plc as the numerator.

The weighted average number of outstanding shares used for basic earnings per share amounted to 219,481,795 shares. (2005: 48,333,333)

## 10. Goodwill

The main changes in the carrying amounts of goodwill result from the acquisition of Eclectic Group Limited and Explore IT Limited. The net carrying amount of goodwill can be analysed as follows:

	2006 £	2005 £
Gross carrying amount	3,562,740	935,315
Accumulated impairment losses	–	–
Carrying amount at 30 September	3,562,740	935,315

The carrying amount at 1 October 2005 related to Glen Communications Limited. Changes in the net carrying amount can be analysed as:

	2006 £	2005 £
Carrying amount at 1 October	935,315	–
Additions:		
Glen Communications Limited	–	935,315
Eclectic Group Limited	2,570,392	–
Explore IT Limited	57,033	–
Impairment loss recognised	–	–
Carrying amount at 30 September	3,562,740	935,315

## 11. Impairment of goodwill

Goodwill has been allocated for impairment testing purposes to three cash-generating units, all in the United Kingdom. The carrying amount of goodwill allocated to Eclectic Group Limited and Glen Communications Limited is significant in comparison with the total carrying amount of goodwill. The recoverable amounts are based on certain similar key assumptions.

### *Eclectic Group Limited*

The recoverable amount of Eclectic goodwill has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets and estimates approved by management covering a 10 year period and a discount rate of 20%. Cash flows beyond five years have been extrapolated using a steady 2.5% growth rate. This growth rate does not exceed the long-term average growth rate for the market in which Eclectic operates. Management believes that any change in the key assumptions on which Eclectic's recoverable amount is based would not cause Eclectic's carrying amount to exceed its recoverable amount.

### *Glen Communications Limited and Explore IT Limited*

The recoverable amount of Glen Communications and Explore IT goodwill has been determined based on a value-in-use calculation. That calculation uses cash flow projections based on financial budgets and estimates approved by management covering a 10 year period and a discount rate of 30%. Cash flows beyond five years have been extrapolated using a steady 2.5% growth rate. This growth rate does not exceed the long-term average growth rate for the markets in which Glen Communications and Explore IT operate. Management believes that any change in the key assumptions on which Glen Communications' and Explore IT's recoverable amounts are based would not cause Glen Communications' or Explore IT's carrying amounts to exceed their recoverable amounts.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 12. Intangible assets

The following intangible asset arose on the acquisition of Explore IT Limited:

	2006 £	2005 £
Maintenance contracts	100,000	–

Maintenance contracts of £100,000 (2005: £nil) relate to maintenance contracts obtained as part of the acquisition of Explore IT Limited on 4 September 2006 (also, see note 3). The group's policy is to amortise the maintenance contracts over the expected life of the contracts. Due to the date of acquisition, there has been no amortisation charge in the current year.

### 13. Property, plant and equipment

	IT equipment £	Fixtures and fittings, and leasehold improvements £	Plant, machinery, and motor vehicles £	Total £
Gross carrying amount	16,984	2,752	2,254	21,990
Accumulated depreciation and impairment	8,887	1,070	504	10,461
Carrying amount at 1 October 2004	8,097	1,682	1,750	11,529
Gross carrying amount	62,952	11,726	3,614	78,292
Accumulated depreciation and impairment	23,415	3,085	1,475	27,975
Carrying amount at 30 September 2005	39,537	8,641	2,139	50,317
Gross carrying amount	312,662	61,520	6,538	380,720
Accumulated depreciation and impairment	216,895	48,987	2,171	268,053
Carrying amount at 30 September 2006	95,767	12,532	4,367	112,667

The carrying amounts of property, plant and equipment for the periods presented in the consolidated financial statements as at 30 September 2006 are reconciled as follows:

	IT equipment £	Fixtures and fittings, and leasehold improvements £	Plant, machinery, and motor vehicles £	Total £
<b>Cost</b>				
At 1 October 2005	62,952	11,726	3,614	78,292
<b>Additions</b>	51,290	870	4,413	56,573
Additions by acquisition	198,420	48,924	–	247,344
Disposals	–	–	(1,489)	(1,489)
At 30 September 2006	312,662	61,520	6,538	380,720

**13. Property, plant and equipment (continued)**

	IT equipment £	Fixtures and fittings, and leasehold improvements £	Plant, machinery, and motor vehicles £	Total £
<b>Depreciation</b>				
At 1 October 2005	23,415	3,085	1,475	27,975
Charge for year	39,664	8,161	1,771	49,596
Acquisition	153,816	37,741	–	191,557
Disposals	–	–	(1,075)	(1,075)
<b>At 30 September 2006</b>	<b>216,895</b>	<b>48,987</b>	<b>2,171</b>	<b>268,053</b>
<b>Net book value at 30 September 2006</b>	<b>95,767</b>	<b>12,533</b>	<b>4,367</b>	<b>112,667</b>
Net book value at 1 October 2005	39,537	8,641	2,139	50,317

All depreciation and impairment charges are included in “depreciation, amortisation and impairment of non-financial assets” in the income statement.

**14. Leases**

**14.1. Finance leases**

Glen Group plc currently has finance leases which relate to the group's computer equipment. The net carrying amount of the assets held under the leases is £4,149. The assets are included under IT equipment.

Future minimum lease payments as at 30 September 2006:

	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
Lease payments	7,709	1,838	–	9,547

There were no future minimum lease payments as at 30 September 2005.

**14.2. Operating leases**

The group's minimum operating lease payments are as follows:

	Within 1 year £	1 to 5 years £	More than 5 years £	Total £
As at 30 September 2006	107,321	162,842	–	270,163
As at 30 September 2005	58,273	109,022	–	167,295

Lease payments recognised as an expense during the period amount to £172,655 (2005: £45,256). No sublease income is expected as all assets held under lease agreements are used exclusively by the group.

The rental contract for the office rented since 2000 at 121 West Regent Street, Glasgow, has non-cancellable terms of four years four months. The rental contract for the office rented since 2003 at 1st floor, 113 West Regent Street, Glasgow, has non-cancellable terms of one year four months. The rental contract for the office rented since 2004 at ground floor, 113 West Regent Street, Glasgow, has non-cancellable terms of one year four months.

Operating leases do not contain any contingent rent clauses. None of the operating lease agreements contain renewal of purchase options or escalation clauses or any restrictions regarding dividends further leasing or additional debt.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 15. Inventories

	2006 £	2005 £
Consumables	26,752	10,113
Inventories	26,752	10,113

### 16. Trade and other receivables

	2006 £	2005 £
Trade receivables, gross	1,281,684	51,615
Other debtors	1,186	2,090
Prepayments and accrued income	288,601	154,921
Trade and other receivables	1,571,471	208,626

Trade receivables are usually due within 30-45 days and do not bear an effective interest rate. All trade receivables are subject to credit risk exposure. However, the group does not identify specific concentrations of credit risk with regards to trade and other receivables, as the amounts recognised resemble a large number of receivables from various customers.

### 17. Cash and cash equivalents

Cash and cash equivalents include the following components:

	2006 £	2005 £
Cash at bank and in hand	1,075	211,160

### 18. Trade and other payables

	2006 £	2005 £
Bank overdrafts	476,622	48,169
Bank loans – current element	44,400	20,000
Loan notes	50,000	–
Finance leasing liability – current element	7,709	–
Short-term borrowings	578,131	68,169
Trade payables	939,817	126,583
Accruals and deferred income	238,247	78,840
Corporation tax payable	3,803	–
Other taxation and social security	156,410	42,217
Other creditors	3,926	3,000
Directors' loans	–	28,000
Trade and other payables	1,920,934	346,809

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 18. Trade and other payables (continued)

Note 14.1 contains further information on the finance lease liability. The overdrafts are secured by bonds and floating charges over the assets of the subsidiary companies with cross-guarantees from Glen Group plc. The loan note is payable to a former Director of Eclectic Group Limited. It is subject to interest at 2% above the Bank of Scotland base rate and is repayable in six 6-monthly instalments, with the final payment payable by 31 July 2007.

The fair values of the trade and other payables has not been disclosed as due to their short duration, management considers the carrying amounts recognised in the balance sheet to be a reasonable approximation of their fair value.

### 19. Long-term financial liabilities

	2006 £	2005 £
Bank loans	85,719	58,516
Finance leasing liability – long-term element	1,838	–
<b>Long-term financial liabilities</b>	<b>87,557</b>	<b>58,516</b>

The bank loans at 30 September 2006 include a loan taken out by Eclectic Group Limited of £42,182 (2005: nil) at an effective interest rate of 2% over base rate. This loan matures on 30 September 2009 and requires monthly payments. The bank loans at 30 September 2006 also include a loan taken out by Glen Communications Limited of £39,537 (2005: 58,516) at an effective interest rate of 2.75% over base rate. This loan matures on 30 September 2008 and requires monthly payments.

The finance lease liability has an effective interest rate of 12%, which is equal to the rate implicit in the leases. Lease payments are made on a monthly basis. The leasing arrangements mature on 31 May 2008. Long-term financial liabilities have been fair valued at the same amount.

### 20. Equity

#### 20.1. Share capital

The share capital of Glen Group plc consists of ordinary shares with a par value of £0.01. All shares are equally eligible to receive dividends and the repayment of capital, and represent one vote at the shareholders' meeting of Glen Group plc.

	2006 £	2005 £
Shares issued and fully paid		
– beginning of the year	600,000	250,000
– issued during the year	2,676,831	350,000
<b>Shares issued and fully paid</b>	<b>3,276,831</b>	<b>600,000</b>
Shares authorised for share-based payments	2,723,169	200,000
<b>Total equity shares authorised at 30 September 2006</b>	<b>6,000,000</b>	<b>800,000</b>

#### 20.2. Share premium

	2006 £	2005 £
Balance brought forward	957,541	500,000
Premium on shares issued	335,669	700,000
Share issue expenses	(432,393)	(242,459)
<b>Balance carried forward</b>	<b>860,817</b>	<b>957,541</b>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 20.3. Shares to be issued

As per note 3.1, an additional issue of shares (the second consideration shares) was required as part of the acquisition of Eclectic Holdings Limited, providing the profit before interest, tax and amortisation exceeded the amount detailed in note 3.1. As the actual profit for Eclectic Holdings of £414,842 exceeded the required £400,000, the shares to be issued are:

	2006 £	2005 £
Shares to be issued per note 3.1 (73,825,818 at a price of 1.0667p)	787,500	–

### 20.4. Other reserve

The other reserve represents shares reserved for share-based remuneration for the period.

### 20.5. Fair value adjustment

The market value of the first and second consideration shares issued and to be issued in respect of the acquisition of Eclectic Holdings Limited differs from the value agreed with the vendors. The difference in value has been credited to Goodwill, as follows:

	2006 £	2005 £
First consideration shares	128,046	–
Second consideration shares	289,175	–
Fair value adjustment	417,221	–

### 21. Income tax expenses

The tax charge represents:

	2006 £	2005 £
UK corporation tax on profits of the period	5,131	–
<b>Total current tax</b>	<b>5,131</b>	<b>–</b>
Deferred tax: origination and reversal of timing differences	(1,328)	–
Tax charge	3,803	–

The relationship between the expected tax expense based on the effective tax rate of Glen Group plc at 19% (2005: 19%) and the tax expense actually recognised in the income statement can be reconciled as follows:

	2006 £	2005 £
Result for the year before tax	(609,788)	(570,597)
Tax rate	19%	19%
<b>Expected tax expenses</b>	<b>(115,860)</b>	<b>(108,413)</b>
Adjustment for non-deductible expenses	3,026	1,438
Capital allowances in excess of depreciation	7,049	(1,963)
Losses surrendered by way of group relief	29,759	0
Tax losses carried forward	81,157	108,938
<b>Actual tax expense net</b>	<b>5,131</b>	<b>–</b>

## 22. Related party transactions

Loans from Directors were repaid in full during the year. At 30 September 2005 Directors' loans were represented by amounts due to P Ford totalling £20,000 and G J Duncan totalling £8,000. The loans bore interest at 2.75 per cent above the base rate of Bank of Scotland and were repaid on 1 December 2005. Also at 30 September 2005, there was a loan of £12,000 due to a related party, Duncan Ventures Limited, a company controlled by Graham J Duncan. This loan bore interest at 2.75 per cent above the base rate of Bank of Scotland and was repaid on 1 December 2005.

No further related party transactions were recorded during the year to 30 September 2006.

## 23. Contingent liabilities

There were no contingent liabilities at 30 September 2006 or 30 September 2005.

## 24. Capital commitments

There were no capital commitments at 30 September 2006 or 30 September 2005.

## 25. Risk management

The group finances its activities through equity and bank borrowings. No speculative treasury transactions are undertaken and during the last two years no derivative contracts were entered into. Financial assets and liabilities include those assets and liabilities of a financial nature, namely cash, investments and borrowings.

### 25.1 Liquidity risk

The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

The group policy throughout the year has been to ensure continuity of funding by a combination of equity funding and available bank facilities.

### 25.2 Interest rate risk

The interest rate on the group's cash at bank is determined by reference to the bank rate. The interest rates on Glen Communication's financial liabilities are at 2.75 per cent above the base rate of Bank of Scotland. The interest rates on Eclectic and Explore IT's financial liabilities are at 2 per cent above the base rate of the Royal Bank of Scotland.

At 30 September 2006, the group had total committed overdraft facilities of £620,000 (2005: £50,000). Since the year end, a new facility of £1,000,000 has been committed. This is on a rolling basis, with a six-month notice period servable only by the group. The group has two loans, the first is a £100,000 five-year loan facility repayable in 60 monthly instalments of capital and interest, with the final payment falling due in 2008. The second loan is a £110,000 five-year loan facility repayable in 60 monthly instalments of capital and interest with the final payment falling due in 2009. Loan notes are due to a former Director of Eclectic Group Limited, payable in six 6-monthly instalments of capital and interest, with the final instalment due on 31 July 2007.

# GLEN GROUP plc

(Registered in England and Wales with registered number 5259846)

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the second Annual General Meeting of the Company will be held at the offices of Seymour Pierce Limited, Bucklersbury House, 3 Queen Victoria Street, London EC4N 8EL, at 2.00 p.m. on 26 February 2007 for the purpose of considering and, if thought fit, passing the following resolutions, of which resolutions 1, 2, 3 and 4 will be proposed as ordinary resolutions and resolutions 5 and 6 will be proposed as special resolutions:

### ORDINARY BUSINESS

1. To receive the report of the Directors and the financial statements for the year ended 30 September 2006 together with the report of the auditors thereon.
2. To re-elect Mr Graham J Duncan, who retires by rotation and, being eligible, offers himself for re-election.
3. To re-appoint Grant Thornton UK LLP as the auditors.
4. To authorise the Directors to agree the remuneration of the auditors.

### SPECIAL BUSINESS

#### Special Resolutions

5. That
  - (a) in substitution for any existing authority subsisting at the date of this resolution (save to the extent that the same may already have been exercised and for any such powers granted by statute), the Directors of the Company from time to time be and they are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80 of the Companies Act 1985 (the "Act")) up to an aggregate nominal amount of £1,984,911.05, provided that such power shall expire on the date of the Annual General Meeting of the Company to be held in 2008 or 15 months after the date of the passing of this resolution (whichever is the earlier) but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors of the Company from time to time may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired; and
  - (b) the Directors of the Company be and are hereby empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company for cash pursuant to the general authority conferred on the Directors by paragraph (a) of this resolution as if Section 89(1) of the Act did not apply to such allotment, provided that this power shall be limited to:
    - (i) the allotment of equity securities for cash in connection with or pursuant to an offer by way of rights to the holders of the ordinary shares and other persons entitled to participate therein in proportion (as nearly as may be) to their respective holdings of ordinary shares (or, as appropriate, the numbers of ordinary shares which such other persons are for those purposes deemed to hold), subject only to such exclusions or other arrangements as the Directors of the Company from time to time may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory body or any stock exchange in any territory; and
    - (ii) the allotment (other than pursuant to (b)(i) above) of equity securities up to an aggregate nominal amount of £1,984,911.05, provided that such power shall expire on the date of the Annual General Meeting of the Company to be held in 2008 or 15 months after the date of the passing of this resolution (whichever is the earlier) but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors of the Company from time to time may allot equity securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.
6. That Article 102.2 of the Company's articles of association be amended in respect that the amount to which the Directors shall restrict the borrowings of the Company without the previous sanction of an Ordinary Resolution of the Company is increased to the greater of £5 million and an amount equal to four times the Adjusted Capital and Reserves (as defined in the Company's articles of association).

Registered Office  
8-10 New Fetter Lane  
London EC4A 1RS

By order of the Board  
Peterkins  
Company Secretary

Dated: 12 January 2007

## NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

### *Notes:*

1. A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. The proxy need not be a member of the Company. A form of proxy is enclosed with this notice for use at the meeting.
2. To be valid a form of proxy, together with a power of attorney or other authority, if any, under which it is executed or a notarially certified copy thereof, must be deposited at the offices of Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 3FA not less than 48 hours before the time for holding the meeting or adjourned meeting.
3. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
4. In the case of a corporation, the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised office of the corporation.
5. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company as at 2.00 p.m. on 24 February 2007 shall be entitled to attend and vote, whether in person or by proxy, at the Annual General Meeting, in respect of the number of Ordinary Shares registered in their name at that time. Changes to entries in the register of members after 2.00 p.m. on 24 February 2007 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting. If the Annual General Meeting is adjourned, entitlements to attend and vote will be determined by reference to the register of members of the Company 48 hours before the time of the adjourned meeting.
6. Completion and return of the form of proxy will not preclude members from attending or voting in person at the meeting if they so wish.



## DIRECTORS, SECRETARY AND ADVISERS

### Directors

Eric M Hagman CBE, Non-Executive Chairman  
Graham J Duncan, Chief Executive Officer  
Peter J Ford, Non-Executive Director

### Company Secretary

Peterkins  
Solicitors  
100 Union Street  
Aberdeen AB10 1QR

### Registered Office

8-10 New Fetter Lane  
London EC4A 1RS

### Nominated Adviser

Seymour Pierce Limited  
Bucklersbury House  
3 Queen Victoria Street  
London EC4N 8EL

### Broker

Ellis Stockbrokers Limited  
Talisman House  
Jubilee Walk  
Three Bridges  
Crawley  
West Sussex RH10 1LQ

### Solicitors

Neil C Hunter  
100 Union Street  
Aberdeen AB10 1QR

Charles Russell LLP  
8-10 New Fetter Lane  
London EC4A 1RS

### Auditors and Reporting Accountants

Grant Thornton UK LLP  
1-4 Atholl Crescent  
Edinburgh EH3 8LQ

### Bankers

The Royal Bank of Scotland  
Commercial Centre  
100 West George Street  
Glasgow G2 1PP

Bank of Scotland  
47 High Street  
Dalkeith  
Midlothian EH22 1JA

### Financial PR

Halogen Communications Limited  
4 Queen Street  
Edinburgh EH2 1JE

### Investor Relations

College Hill  
78 Cannon Street  
London EC4N 6HH

### Registrars

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol BS99 7NH

### Company Number

5259846



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Glen House  
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