

FOR IMMEDIATE RELEASE

23 November 2006

NETSERVICES PLC
MAIDEN PRELIMINARY RESULTS ANNOUNCEMENT

For the 12 months ended 31 August 2006

NetServices plc, (AIM:NSV) the specialist provider of voice and data converged business infrastructure solutions announces its maiden preliminary results for the year ended 31 August 2006.

Key Highlights

- **Turnover up 46% to £16.2m (2005 : £11.1m)**
- **Gross margin of £3.4m (2005 : £3.7m)**
- **EBITDA loss of £2.3m**
- **Loss before tax of £3.0m**
- **Infrastructure investment for launch of Voice4IP : £1.5m**
- **Exceptional bad debt charge of £1m**
- **'free' broadband impact**
- **Associated costs with founder and redundancy charges of £0.3m**
- **Year end cash balances of £1.3m**
- **Monthly overhead costs reduced by £120k per month since the summer**
- **Board Changes : Philip Wedgwood appointed Sales Director**

Commenting on outlook, Chris Townsend, Non-Exec Chairman said: “*With our new products, revised approach and operating structure the Directors believe NetServices is now in a stronger position and looks forward to a significantly improved performance in 2007*”.

For further information, please contact:

NetServices

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CHAIRMAN'S STATEMENT

I am pleased to announce NetServices' maiden results following the company's admission to trading on AIM in March of this year. The last few months have been one of the most challenging periods that the company has had to endure, adapting to public life together with the changing dynamics of our business environment. The results of which are, that as announced in our pre-close trading statement on 13 September 2006, the financial targets set at the time of our flotation have not been achieved.

Our results for the year to 31 August 2006 were therefore disappointing when compared to our expectations at the beginning of the year. Turnover of £16.2m (2005: £11.1m) represents an increase of 46%, with a gross margin of £3.4m (2005: £3.7m). Consequently and together with the cost of the growth in our overhead base necessary to support our sales target, our investment in Voice4IP software and the expense of becoming a public company, we have reported an EBITDA loss of £2.3m (2005: £0.3m) and a loss for the year of £3.0m (2005: £0.8m). At the year-end the company had cash balances at the bank of £1.3m (2005: £1.0m).

The year has seen many changes both within the company and the marketplace in which we operate. At the beginning of the financial year we were digesting the acquisition of Telefonica UK (since renamed WAN Services Limited), we appointed a new Sales Director and were aggressively hiring sales staff, programmers and developers for Voice4IP. The management and operating structure of the Group were being restructured and we were planning our flotation on AIM. In March 2006 we completed the IPO raising approximately £4.0m net of expenses for the company and £6.0m for the exiting founder.

Within four weeks of our admission to AIM our core wholesale revenue base was shaken with the announcement that broadband was now "free". This signalled the beginning of a rush of activity by the major carriers to secure customers, particularly retail consumers, for the future. The impact was immediate with over 30% being wiped off the value of our comparator companies. Consolidation amongst the owners of the biggest broadband customer books has continued apace since then and valuations have fluctuated wildly.

The knock on effect, particularly for NetServices, was a stalling of the new business market. This led to the failure of a number of our resellers leading to a bad debt charge of £1.0m (2005: £0.1m) in the year to 31 August 2006. In addition, the expected future revenues from these companies dropped out of our annuity book. We reviewed our position within the wholesale area of our business and explored various options, including an outright sale. However, after careful consideration and following discussions with third parties the Directors concluded that shareholder value, longer term, would best be served by its retention. The board remains committed to seeking opportunities to enhance shareholder value.

During the year and consistent with our strategy to focus on the higher margin voice and data solutions, we continued to develop our core Voice4IP product, our hosted soft switch solution which was launched during the year. We have continued developing new features and functionality and will release version 2 at the end of this month. Our focus is on securing revenue and profit opportunities through our targeted reseller base where we are confident that this product will differentiate us in the converged market.

We continue to win new business in the hosting and WAN areas, albeit more slowly than we had predicted. This has caused us to reassess our short term targets and to change the structure and personnel in our sales function. In October 2006 Philip Wedgwood joined the board as Sales Director and I am pleased with the impact this is beginning to have with our resellers. At the same time David Garner left the company.

With our new products, revised approach and operating structure the directors believe the company is now in a stronger position and looks forward to a significantly improved performance in 2007.

Finally I would like to thank all the staff at NetServices for their efforts in what has been an extremely difficult and challenging period and to express my belief that their efforts will be rewarded with success this year and in the future.

C. Townsend
Chairman
23 November 2006

CHIEF EXECUTIVE REPORT – BUSINESS REVIEW

Introduction

NetServices specialises in providing innovative voice, data and converged business infrastructure solutions. We operate an indirect business model selling products and services through a base of strategic partners and reseller organisations. Through this channel, NetServices serves a range of both small and medium sized enterprises as well as large telecoms companies including BT and Kingston Communications.

Our heritage in networking infrastructure as well as our in-house development skills makes NetServices one of the most advanced players in the emerging converged marketplace. We have developed a comprehensive portfolio of products, encompassing wide area networking, wholesale broadband, voice and hosting services to complement that of our channel partners.

Routes to market

NetServices has always operated within the indirect channel and with our movement to more complex product solutions our channel has also evolved. In addition to our volume resellers (primarily wholesale broadband) we are developing more strategic partnership relationships with a range of partners who provide managed services to their customers.

Partners vary from those providing LAN management who want to extend their services into the WAN arena, those with voice wishing to add data to their portfolio and software houses requiring networking ability to deliver their services to customers. Using the NetServices range of products these organisations can effectively broaden the portfolio of services they offer providing them with deeper customer relationships, additional revenue streams and, vitally, the ability to meet the needs of a converged market.

Our comprehensive product portfolio combined with our network infrastructure (NetServices have both IPStream and DataStream networks) ensures we are ideally positioned as the 'convergence enabler for the channel'. This allows us to sell higher value complex networking, voice and converged services and thus enables our partners to be confident in our joint ability to deliver converged solutions. This strategy remains key to our future growth.

In tandem with the development of these strategic partners we are looking at how we reduce our exposure to the consumer market via our wholesale broadband resellers who operate in this environment. We believe that by reducing our exposure and risk to this highly commoditised area of the market and focusing on resellers who target the business environment we can continue to operate successfully within this area. Though consolidation in the consumer broadband market is likely to continue it is our belief that the business environment will continue to be served by a range of local and regional providers.

Results for the year

All areas of the business have shown growth when compared to the 2005 results. Turnover of £16.2m represents a significant increase of 46% over 2005's figure of £11.1m, although this is lower than projected at the time of the company's IPO. Analysis of the turnover and gross margin in each of the four key product areas is detailed in the product performance review below:

We stated in our pre-close announcement on 13 September 2006 that the results were expected to produce an EBITDA loss of £2.3m and a loss before tax of £3.0m and that there were a number of significant items to be noted when considering the implications of the results in more detail. The result has not changed as a result of the audit process. However, it is important that I summarise the true impact of these items.

The delayed launch of Voice4IP together with the cost of investment in staff and of retaining the DataStream network acquired as part of WAN Services as a platform for Voice4IP, contributed approximately £1.3m of the EBITDA loss referred to above.

The sales drive to secure voice resellers who, we expect, will have to diversify their business models to sell VoIP solutions in the future has cost approximately £0.2m between January 2006 and the year-end. We have acquired eight new voice resellers.

The results include an exceptional bad debt charge in respect of wholesale resellers of approximately £1.0m (2005: £0.11m). Of this £0.2m was included in our half year results to 31 March 2006 announced in May 2006. The "free" broadband offer which arose immediately after our IPO has impacted more reseller businesses than anyone in the sector appears to have anticipated, ourselves included. We believe that there may be scope for recovery of some of the bad debt provisions in the future, but cannot place any reliance or expectation on this at this time.

During the year our wholesale business consumed a disproportionate amount of management and accounting resource. We were required to issue credits to a significant number of customers following billing systems issues in spring 2006. However, following the restructuring and the introduction of new approaches to credit and fair usage of the network we are confident that it is now generating positive contribution and cash flow to the Group.

The result also includes £0.2m of costs associated with the founder and redundancy charges of £0.1m incurred in June 2006 when 17 staff left the Group.

The acquisition of WAN Services in May 2005 brought a new sales team which we further augmented to take advantage of the more complex solutions market and to prepare for the launch of Voice4IP. Our sales function has been significantly restructured and reduced since the year-end.

As a result of the changes we have made, the monthly overhead cost base excluding depreciation and bad debt charges, has been reduced from a peak of £0.48m in May 2006 to a normalised rate of £0.36m in October 2006.

Product performance review – wholesale broadband

In the second half of the year following the first of the "free" broadband announcements we undertook a comprehensive review of our wholesale broadband business to determine its current and potential future value and the options available to us. Our conclusions were that uncertainty would prevail in the market for at least the remainder of this calendar year. However, the result of our analysis was that we should retain our wholesale broadband business, in part due to a clearer view of its revenue and margin contribution and also because it provides us with an important infrastructure from which we can deliver our higher value networking services. The inability of the "free" suppliers to meet customer expectations and the growing awareness of business versus consumer quality of service requirements seems to have stemmed the price driven deflation in our business to business target market place.

During the year, wholesale broadband and dial up products remained our principal revenue source generating £11.0m (2005: £7.0m). Dial up revenues represent approximately 10% of this. Margins decreased to £2.1m (2005: £2.4m) reflecting both the gross loss made on old Telefonica contracts and the lower prices in the market place. We ended the financial year with more than 50,000 end users, a small increase compared to the previous year.

Performance review – wide area networking

In parallel and based on our strategy of moving into higher value contracts we successfully progressed our plans to secure a higher proportion of WAN business. As a consequence revenues in this area grew substantially to £2.7m (2005: £0.9m). Whilst individual contract margins fell the gross profit generated from this activity rose by 71% from £0.7m to £1.2m.. Our average managed WAN contract value in this area is £0.1m and typically includes ten to 30 sites with approximately 350 users.

Product performance review – hosting services

From our two data centres in Salford we provide a portfolio of hosting services ranging from co-location to fully managed and bespoke software support services. Our revenues from these clients grew by 10% during the year to £1.1m (2005: £1.0m) with margins of 50%..

Product performance review – Voice4IP

During the year we continued to invest in our core voice application, the hosted “soft switch”, a telephony software application to replace the traditional pbx hardware. Whilst the product was initially launched at the beginning of the year the full roll out was delayed, to enable us to modify the functionality within the product set in light of feedback from beta test customers and our reseller base. We have now successfully contracted eight new resellers and are beginning to generate fee paying customers. Turnover for the period was modest at £0.16m.

In addition to the development of the core system we have identified opportunities to utilise modules of the core application in the development of additional solutions to generate further new revenue channels. Since the year-end we have launched a new IP based business conferencing bridge. In its simplest form this enables up to 120 concurrent attendees to participate in a single conference. The bridge which is hosted on our network can be hired on a “pay as you go” basis enabling our resellers to offer this as an additional service to their clients without the need for direct capital investment on their part.

Board changes

Since the year-end, Philip Wedgwood has joined the board as Sales Director and David Garner resigned from the board and has left the company.

Philip Wedgwood joined NetServices in February 2005 to set up and launch the Voice4IP business where he was Managing Director until July 2006. Phil has more than ten years' experience in the IT and communications industry, holding roles from Software Engineer to Managing Director. He has held senior roles in BT and O2 and has a track record for driving sales and implementing and executing business strategy. As Sales Director, his role is to capitalise and leverage the momentum created in Voice4IP across the business to improve efficiencies and drive growth.

Organisational restructure

In 2005 our internal organisation began to evolve to service our growth plans and to introduce the internal controls required by a public company. The number of employees grew significantly. However, during the summer it was clear that we were not converting our order book into revenues at the rate we had expected and we were subjected to a number of client failures leading to greater risk in our growth plans. In short our cost base was too high. At the same time the greater part of the Voice4IP development had been completed and consequently we determined that we could now merge the development teams together into one trading entity and safely rationalise the combined cost base with

the aim of ensuring we achieve positive EBITDA at the earliest opportunity. In June 2006 we employed 99 staff. We now employ 74.

The most significant change has taken place in the sales team where Philip Wedgwood has created three key roles to support and grow existing clients and develop new business:

- desk based account managers to service our broadband customer needs;
- field account managers servicing our existing larger clients to protect and grow our premiums revenues; and
- a team dedicated to developing new strategic reseller partner relationships.

Organisational restructure

This is the front end of our business and is well supported by a skilled and experienced pre-sales team and by project management teams who manage deployment and ensure service delivery both to the resellers and ultimately their customers. Once a customer's solution is active they are supported by our customer service desk. These teams are dedicated to ensuring the smooth running of the account, particularly providing the technical second and third line support to the reseller and intermediating between the customers and the carriers.

Since the formation of this team in March 2006, we have instigated a continuous service improvement programme which is monitored regularly by survey. Customer feedback following the most recent survey was exceptionally positive with Service Managers consistently exceeding client expectations. Based on this scorecard analysis, level of service has increased by 113% in the last six months. Customer perception of change management, which relates to how NetServices' service desk manages requests for change and notifies customers of planned maintenance, was also significantly up on the previous period, posting an improvement of 106%. This programme is ongoing as it is our belief that high levels of service will differentiate us from other providers in this market.

I am confident that with this new structure in place both in terms of sales and customer service we will be able to exploit the exciting opportunities available to us. Our software development teams have amalgamated and now operate from a single office. With the exception of the data centre based engineers and specific remote home workers all other staff are centralised into NetServices House here in Salford.

Current trading and post balance sheet events

Last week BT announced the long awaited changes to their charging structures for central pipes and for the rental of the end user tails, both of which are core to our wholesale proposition and which are to be introduced in May 2007. The announcement also includes a proposal to charge for MAC codes, effectively an exit charge when changing suppliers. We have yet to see how this will impact the sector and what the reaction of competitive suppliers will be. Overall, however, we anticipate that these proposals will lead to a material improvement in the gross margin we earn on this part of our business.

The impact of the decision made and announced last week to disconnect our largest wholesale DSL customer, Biscit CSP Limited (formerly v21.co.uk Ltd), has yet to be determined. Initial indications are that about a quarter of the customers have so far signed new contracts with EezeDSL, which will lead to a shortfall in future monthly turnover; however, cost savings available in the network are expected to offset this lost income.

We have reviewed the provisions we made at the year-end and are satisfied that we do not need further provisions at this stage. We can confirm that we have not yet received notice of any legal proceedings against us, nor of any specific dispute with the outstanding invoices for end user tails and

we are confident that should any proceedings be issued by Biscit in the future they will be unsuccessful and we will be paid.

Summary and outlook

Whilst these last few months have been particularly intense and volatile for the company and the sector as a whole, the board believes that we now have the building blocks in place to establish NetServices as a leading player within our market. This has also been acknowledged by our customers in our recent feedback survey which in summary conveyed that our services had significantly improved in recent months.

Our strategy remains focused on leveraging our network and skill base to take advantage of opportunities in the more lucrative converging voice and data markets. We have started this new financial year with annualised revenues of £18.0m and we have launched new products and solutions focused on accruing higher margins than achieved over the last financial year. Whilst we have confidence these new products will create profitable growth our short term focus is on achieving profit and positive cash generation.

Continued corporate activity in the sector has seen consolidation of most of the larger DSL suppliers, including only last week BT making a recommended offer for Plusnet plc. Whilst satisfied with our current trading performance we continue to explore all opportunities to maximise shareholder value. Cash balances at the end of October 2006 were £1.3m.

In closing it is important to acknowledge and express thanks for the support both of our investors and employees. I look forward to updating the market on our continued progress in due course.

M. Vickers
Chief Executive Officer
23 November 2006

GROUP CONSOLIDATED PROFIT AND LOSS ACCOUNT
- for the year ended 31 August 2006

	Year to 31 August 2006 £	Year to 31 August 2005 £
Turnover	16,153,738	11,068,635
Cost of sales	12,774,148	7,324,497
Gross profit	3,379,590	3,744,138
Administrative expenses (before goodwill amortisation, depreciation and research and development)	5,349,093	3,789,302
Goodwill amortisation	38,536	12,845
Depreciation	588,384	380,599
Research and development	343,155	296,333
Total administrative expenses	6,319,168	4,479,079
Other operating income	(8,283)	(10,247)
Operating (loss)	(2,931,295)	(724,694)
Interest receivable	10,718	13,277
Interest payable	(81,923)	(48,076)
(Loss) on ordinary activities before taxation	(3,002,500)	(759,493)
Tax on loss on ordinary activities	101,508	20,834
Retained loss for the financial year after taxation	(2,900,992)	(738,659)
(Loss) per share		
– basic and diluted (pence)	(11.65)	(3.59)

The retained loss for the year arises from the group's continuing operations.

No separate statement of total recognised gains and losses is presented as all such gains and losses have been dealt with in the profit and loss account.

GROUP CONSOLIDATED BALANCE SHEET
- as at 31 August 2006

	2006	2005
	£	£
Fixed assets		
Intangible assets	453,623	372,519
Tangible assets	2,092,853	2,223,674
Investments	59,357	59,357
	2,605,833	2,655,550
Current assets		
Debtors	3,604,183	3,807,647
Cash at bank and in hand	1,350,649	1,475,219
	4,954,832	5,282,866
Creditors		
Amounts falling due within one year	3,659,278	4,897,891
Net current assets/(liabilities)	1,295,554	384,975
Total assets less current liabilities	3,901,387	3,040,525
Creditors		
Amounts falling due after more than one year	566,676	573,039
Provisions for liabilities and charges	2,148,219	2,565,200
	1,186,492	(97,714)
Capital and reserves		
Called-up equity share capital	72,573	51,443
Share premium account	4,287,725	123,657
Profit and loss account	(3,173,806)	(272,814)
Equity shareholders' funds/(deficit)	1,186,492	(97,714)

GROUP CONSOLIDATED CASH FLOW STATEMENT
- for the year ended 31 August 2006

	Year to 31 August 2006 £	Year to 31 August 2005 £
Net cash (outflow) from operating activities	(3,765,911)	(2,019,753)
Returns on investments and servicing of finance		
Interest received	10,718	13,277
Interest paid	(64,846)	(27,427)
Interest element of hire purchase	(17,077)	(20,649)
Net cash (outflow) from returns on investments and servicing of finance	(71,205)	(34,799)
Taxation	31,216	(150,942)
Capital expenditure		
Payments to acquire intangible fixed assets	(119,640)	—
Payments to acquire tangible fixed assets	(222,162)	(654,393)
Receipts from sale of tangible fixed assets	—	5,879
Net cash (outflow) from capital expenditure	(341,802)	(648,514)
Acquisitions and disposals		
Net cash acquired with subsidiary	—	4,001,980
Acquisition	—	(82,418)
Net cash inflow from acquisitions	—	3,919,562
Cash (outflow)/inflow before financing	(4,147,702)	1,065,554
Financing		
Issue of share capital	4,185,198	—
Capital element of hire purchase	(92,853)	(57,505)
Bank loans taken out in the period	—	300,000
Bank loans repaid	(49,695)	(9,642)
Net cash inflow from financing	4,042,650	232,853
(Decrease)/increase in cash in the year	(105,052)	1,298,407

NOTES:

1. Accounting Policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

Going concern

The financial statements have been prepared on a going concern basis, which assumes that the group will continue to meet its debts as they fall due for the foreseeable future.

Basis of consolidation

The consolidated accounts incorporate the accounts of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies. Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over its useful economic life from the year of acquisition. The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group accounts by virtue of section 230 of the Companies Act 1985.

The group share of the profits of Datascope Online Ltd, an associate company, has not been included in the consolidation on the grounds of immateriality.

Turnover

Turnover from the sales of equipment is recognised upon delivery to the customer. Connection revenue and set-up income is recognised upon connection of the customer to the network. Other contracted income, including customer rental, is recognised over the contract period in proportion to the value of the service provided.

Deferred income represents that portion of rental fees paid by customers but relating to a future period.

Amortisation

Amortisation 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:

Goodwill	–	over ten years
Research and development	–	over life of associated product

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:

Freehold property	–	2% on cost
Long leasehold property	–	2% on cost
Plant and machinery	–	20% on cost
Fixtures and fittings	–	20% on cost
Motor vehicles	–	20% on cost
Computer equipment	–	20% on cost

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the

balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Operating lease agreements

Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged against profits on a straight line basis over the period of the lease.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

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

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Research and development

Research and development expenditure is written off to the profit and loss account in the year in which it is incurred.

Development expenditure is carried forward when its future recoverability can be foreseen with reasonable assurance and is amortised in line with sales from the related product. All research and other development costs are written off as incurred.

2. Turnover

The group's turnover and loss before taxation were all derived from its principal activity which is the provision of internet services. 97.1% of the turnover (2005: 99.4%) was attributable to the United Kingdom. As the level of trade outside the United Kingdom was immaterial an analysis of the income, result and net assets by geographical area has not been disclosed.

3. Operating Loss

Operating loss is stated after charging:

	2006	2005
	£	£
Amortisation of goodwill	38,536	12,845
Depreciation of owned fixed assets	550,048	357,906
Depreciation of assets held under hire purchase agreements	38,336	22,693
Loss on disposal of fixed assets	—	3,544
Auditors' remuneration		
- as auditors	38,000	35,000
- interim review	9,000	—
- Corporation tax compliance	6,500	2,500
- other	—	12,500
Operating lease costs:		
- land and buildings	189,621	234,076
Research and development	343,155	296,333

In addition, the auditors received £125,000 (2005: £nil) in respect of services as reporting accountants which has been set against the share premium account.

4. (Loss) per share

	Year ended 31 August 2006	Year ended 31 August 2005
Basic and diluted per share (pence)	(11.65)	(3.59)

The calculation of diluted loss per ordinary share is identical to that used for the basic loss per ordinary share for the year ended 31 August 2006 and the year ended 31 August 2005. This is because the exercise of the options would have the effect of reducing the loss per ordinary share and is, therefore, not dilutive under the terms of FRS 22.

Earnings and the number of shares used in the calculations of loss per share are set out below:

	Year ended 31 August 2006 £000's	Year ended 31 August 2005 £000's
(Loss) for the year	(2,901)	(739)

Weighted average number of shares used in the calculations of loss per share are set out below:

	Year ended 31 August 2006 No.	Year ended 31 August 2005 No.
For basic and diluted loss per share	24,905,142	20,577,364

5. Reconciliation of movements in shareholders' funds

	2006 £	2005 £
(Loss) for the financial period	(2,900,992)	(738,659)
Share issue net of expenses	4,185,198	—
Net addition to/(reduction) in funds	1,284,206	(738,659)
Opening shareholders' equity (deficit)/funds	(97,714)	640,945
Closing shareholders' equity funds/(deficit)	1,186,492	(97,714)

Notes to the cash flow statement

	2006	2005
	£	£
Operating (loss)	(2,931,295)	(724,694)
Amortisation of goodwill	38,536	12,845
Depreciation	588,384	380,599
(Profit) on disposal of fixed assets	—	(3,544)
Decrease/(increase) in debtors	166,981	(433,939)
(Decrease) in creditors	(1,313,044)	(896,020)
(Decrease) in provisions	(315,473)	(355,000)
Net cash outflow from operating activities	(3,765,911)	(2,019,753)

Reconciliation of net cash flow to movement in net funds

	2006	2005
	£	£
(Decrease)/increase in cash in the year	(105,052)	1,298,407
Cash flow in respect of new hire purchase	92,853	(31,821)
Cash flow in respect of hire purchase and loans	49,695	(232,853)
Change in net funds resulting from cash flow	37,496	1,033,733
New hire purchase agreements	(235,401)	—
Opening net funds/(debt)	827,304	(206,429)
Closing net funds	629,399	827,304

Analysis of changes in net funds/(debt)

	At			At
	1 September	Cash	Other	31 August
	2005	flows	2006	2006
	£	£	£	£
Net cash:				
Cash in hand and at bank	1,475,219	(124,570)	—	1,350,649
Bank overdrafts	(19,518)	19,518	—	—
	1,455,701	(105,052)	—	1,350,649
Debt:				
Hire purchase agreements	(51,061)	92,853	(235,401)	(193,609)
Bank loans	(577,336)	49,695	—	(527,641)
Net funds	827,304	37,496	(235,401)	629,399

Other changes of £235,401 relate to new hire purchase agreements taken out during the year.

6. Report & Accounts

A copy of the 2006 Report and Accounts can be obtained from the Company's registered office: 30 Modwen Road, Salford Greater Manchester, M5 3EZ from the 4th December 2006.

7. Annual General Meeting

Notice is hereby given that an annual general meeting will be held at the NetServices House, 30 Modwen Road, Salford, Greater Manchester M5 3EZ on 28 December 2006 at 11.00am.