

CONSTELLATION CORPORATION plc

Report and Financial Statements

31 December 2005

CONSTELLATION CORPORATION plc

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CONSTELLATION CORPORATION plc

REPORT AND FINANCIAL STATEMENTS 2005

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Bartle, CBE
A C Garner
R S Hingley
B R Lakefield
R G Robinson

SECRETARY

R G Robinson

REGISTERED OFFICE

6 Derby Street
London
W1Y 7HD

BANKERS

Lloyds TSB plc
14 Church Street
Rugby
Warwickshire
CV21 3PL

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
4 Brindleyplace
Birmingham
B1 2HZ

REGISTRARS

Capita IRG Plc
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

NOMINATED ADVISERS

City Financial Associates Limited
Pountney Hill House
6 Laurence Pountney Hill
London
EC4R 0BL

BROKERS

City Financial Associates Limited
Pountney Hill House
6 Laurence Pountney Hill
London
EC4R 0BL

CONSTELLATION CORPORATION plc

CHAIRMAN'S STATEMENT

I am pleased to report that, in a number of respects, 2005 has been a turnaround year.

We have seen an increase in turnover of 23% to £1,580,000 (2004; £1,280,000), an operating profit of £154,000 (2004; loss of £11,000) and a modest pre-tax profit of £46,000 (2004; loss of £152,000). This represents the first pre-tax profit for a number of years. Significantly, this improvement was entirely attributable to real progress in the second half of the year as reference to the Interims will confirm.

During the year we broadened our client base – we have a much wider base of prestigious clients in a range of diverse markets – and we now have in place a team of six consultants plus support staff, all of which gives us confidence that we are able to sustain growth in turnover and profitability in the future.

Obviously, we are not in any way complacent. There is still a great deal to do. We have reduced our balance sheet deficit during the year although it remains at £1,289,000 (2004; £1,335,000). Management of the cash position and creditors on a day to day basis remains critical.

Consistently we have continued to work very hard at securing new capital for the Company to help reduce our debt and improve working capital and I would, again, like to thank our bankers and creditors for their support during this time. However, the Board has set aside proposals for a variety of types of investment believing that they would not have been in shareholders' best interests. Be assured we remain fully committed to establishing this Company on a sound financial footing.

Meanwhile, prospects for the Company look better than they have done for some considerable time, certainly for as long as I have been involved, with the early months of 2006 continuing the progress made in the last half of the year. The Board remains cautiously optimistic regarding trading prospects for the Group.

J BARTLE

Chairman

CONSTELLATION CORPORATION plc

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2005.

ACTIVITIES

The principal activity of the Group during the period was executive search and selection.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The Chairman's Statement on page 2 reviews the activities of the Group including a statement of recent and future developments.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated profit and loss account on page 11.

The directors do not recommend payment of any dividends (2004: £Nil). Further information on dividends is given in note 7 to the accounts.

Retained losses carried forward are decreased by £46,000 (2004: retained losses increased by £225,000).

DIRECTORS AND THEIR INTERESTS

The directors who served during the year are shown on page 1. Their interests in the shares of the company as defined by the Companies Act 1985, are shown in the Report of the Remuneration Committee on pages 7 and 8.

BR Lakefield retires by rotation, and being eligible, offers himself for re-election.

SUBSTANTIAL SHARE INTERESTS

As at 31 December 2005, the Company had been notified of the following interests in its issued share capital and warrants:

| | Ordinary shares of 0.1p each |
|--------------------------------|---|
| A C Garner | 301,350,439 |
| Vidacos Nominees Limited | 98,000,000 |
| TD Waterhouse Nominees Limited | 79,367,406 |
| Pershing Keen Nominees Limited | 59,694,166 |
| Barclayshare Nominees Limited | 51,518,044 |
| HSDL Nominees Limited | 45,504,683 |
| L R Nominees Limited | 44,782,906 |

As far as the directors are aware, no other entities or individuals held 3% or more of the shares in issue.

CONSTELLATION CORPORATION plc

DIRECTORS' REPORT

SHARE CAPITAL MOVEMENTS

Movements in share capital are included in note 18 to the Balance Sheet.

EMPLOYEE INVOLVEMENT

The company has well established communications and consultation procedures with all employees. These continually evolve to meet the changing needs of the business and are considered valuable by both management and staff.

EMPLOYMENT OF DISABLED PERSONS

It is the Company's policy to give a full and fair consideration to the employment and promotion of disabled persons where they appear suitable, having regard to their particular aptitudes and abilities. Where existing employees become disabled it is the Company's policy to find them alternative suitable employment within the Group where possible.

CREDITOR PAYMENT POLICY

The Company and Group do not have a standard or code which deals specifically with the payment of suppliers. The Group does, however, endeavour to comply with the terms and conditions agreed with suppliers when orders are placed. Trade creditor days of the Company at 31 December 2005, calculated in accordance with the requirements of the Companies Act 1985, were 149 days (2004: 238 days). This represents the ratio, expressed in days, between the amounts invoiced to the Company in the year by its suppliers and the amounts due, at the year end, to trade creditors falling due for payment within one year.

FINANCIAL INSTRUMENTS

The group's exposure to interest rate risk, liquidity risk and currency risk is discussed in note 23 to the financial statements. The group is exposed to credit risk on trade debtors and the directors consider that the carrying value of trade debtors represents their recoverable amount.

POST BALANCE SHEET EVENT

The Company is proposing to carry out a share capital reorganisation, the effect of which will be to reduce the number of shareholders, and to increase the nominal value of each share to enable the Company to effect a Placing and Debt Capitalisation Issue.

The Company has also agreed to place 3,785,714 New Ordinary Shares to raise £132,500, and to convert certain debts owed to third parties into New Ordinary Shares by way of a Debt Capitalisation Issue.

AUDITORS

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

R G ROBINSON

Secretary

CONSTELLATION CORPORATION plc

CORPORATE GOVERNANCE

As a company listed on the Alternative Investment Market of the London Stock Exchange, Constellation Corporation plc is not required to comply with the Combined Code ("the Code") adopted by the UK Listing Authority in 1998. However, the Board of Directors has considered the effects of the Code and taken steps to comply with the Code insofar as it can be applied practically, given the size of the Group and the nature of its operations. At this stage, no action has been taken in respect of the revised code issued in 2003.

The Audit Committee comprises all of the non-executive directors and meets as required.

The directors also acknowledge their responsibility for the Group's system of internal control of which the objectives are:

- a) Safeguarding Group assets.
- b) Ensuring proper accounting records are maintained.
- c) Ensuring that the financial information used within the business and for publication is reliable.

The key procedures that have operated during the financial year are set out below:

- a) The Board meets regularly to review all aspects of the Group's performance concentrating mainly on financial performance, business risks and development.
- b) A number of matters are reserved for the Board's specific approval including major capital expenditure, banking and dividend policy.

In establishing the systems of internal control, the directors have implemented a control environment, risk management procedures and reporting processes appropriate to the size of the Group. The system of internal control is designed to manage rather than eliminate risk. Further procedures will continue to be adopted in respect of all the Group's activities to further improve financial control.

As explained in Note 1, trading and cash flows can be unpredictable. However, after making appropriate enquiries the directors have formed a judgement that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

The Remuneration Committee consists of all the non-executive directors.

The remuneration of the non-executive directors is determined by the Board.

At present the committee annually reviews the level of directors' remuneration packages. Disclosure of directors' remuneration is provided in the report of the Remuneration Committee.

CONSTELLATION CORPORATION plc

DIRECTORS' REMUNERATION REPORT

As a company listed on the Alternative Investment Market of the London Stock Exchange, Constellation Corporation plc is not required to provide the following, unaudited information.

Unaudited information:

Under the company's Articles of Association, the Board may delegate any of its powers, authorities and discretions to a sub-committee of the Board.

The Remuneration Committee comprises the non-executive directors. The Committee is formally constituted with written terms of reference. No individual director participates when his own remuneration is under consideration.

In formulating its remuneration policy, the Committee has given full consideration to the relevant sections of the Combined Code issued by the Committee on Corporate Governance.

There follows the full text of the Remuneration Report for the year ended 31 December 2005 which has been approved and adopted by the Board of Directors for submission to the shareholders.

Composition

R S Hingley chaired the Remuneration Committee with J Bartle, B R Lakefield and R G Robinson being its other members.

Policy for Executive Directors

To attract, motivate and retain high calibre executives by rewarding them with appropriate salary, bonus scheme, benefits and share option packages.

a) Salary

Salaries are reviewed annually and the Committee takes account of similar companies in its industry by reference to published information for similar jobs as well as individual performance.

b) Bonus

The company operates a discretionary bonus scheme for executive directors, currently only A C Garner. The scheme is based on achieving agreed levels of profitability within the part of the Group they are directly involved with. Bonus payments are non-pensionable.

c) Benefits

When appropriate, executives are provided with company cars, medical insurance and life assurance.

d) Pension

The company pension scheme is available to all executive directors.

e) Share Options

There are no share options in existence at the year end.

f) Service Contracts

A C Garner has a service contract that is subject to 24 months notice by either party. Given Mr Garner's pivotal role in the business this notice period is considered appropriate. It is the Board's intention, at an appropriate time of the Group's development, to reduce the notice period on this service contract. The Committee reviews each case of early termination individually in order to ensure compensation settlements are made which are appropriate to the circumstances taking care to ensure that poor performance is not rewarded.

Policy for Non-Executive Directors

The Board is responsible for determining the fees payable to non-executive directors. The executive director seeks to advise the Board on the level of fees based on external evidence of fees paid to non-executive directors of similar companies.

Non-executive directors are appointed initially on a fixed two year contract and thereafter on a year to year basis.

CONSTELLATION CORPORATION plc

DIRECTORS' REMUNERATION REPORT

Directors' Interest in Contracts

Anderson Barrowcliff, of which R G Robinson is a partner, provides company secretarial services to the company. Apart from that there were no contracts subsisting at the end of the year in which a director of the company was materially interested.

Directors' Interest in Shares and Options

Details of the interests of those directors that held office during the period, all of which are beneficial, in the shares of Constellation Corporation Plc on the dates specified are as follows:-

| | 31 December 2005 | 31 December 2004 |
|---------------|-------------------------|-------------------------|
| | Ordinary Shares | Ordinary Shares |
| | of 0.1p Each | of 0.1p Each |
| A C Garner | 301,350,439 | 301,350,439 |
| R S Hingley | 2,000,000 | 2,000,000 |
| J Bartle | 6,000,000 | 6,000,000 |
| B R Lakefield | 35,000,000 | 35,000,000 |

R G Robinson held no shares in the company during the year.

Audited information:

Directors' Emoluments

The emoluments of the directors of the company for the year ended 31 December 2005 were as follows:-

| | Salary | Benefits | Pensions | Total | 31 Dec |
|--------------------------------|-----------------|-----------------|-----------------|---------------|---------------|
| | and fees | | | 31 Dec | 2004 |
| | £000 | £000 | £000 | 2005 | 2004 |
| | £000 | £000 | £000 | £000 | £000 |
| Executive Director | | | | | |
| A C Garner | 167 | 5 | - | 172 | 188 |
| Non-Executive Directors | | | | | |
| R S Hingley | - | - | - | - | - |
| B R Lakefield | - | - | - | - | - |
| J Bartle | - | - | - | - | - |
| R G Robinson | - | - | - | - | - |
| | <u>167</u> | <u>5</u> | <u>-</u> | <u>172</u> | <u>188</u> |

CONSTELLATION CORPORATION plc

DIRECTORS' REMUNERATION REPORT

Directors' Emoluments (continued)

Certain Directors waived part of their salary entitlements during the current and previous years. The amounts waived were as follows:

| | 31 December 2005 £000 | 31 December 2004 £000 |
|---------------|--------------------------------------|--------------------------------------|
| A C Garner | 33 | 17 |
| R S Hingley | 20 | 20 |
| B R Lakefield | 15 | 15 |
| J Bartle | 20 | 20 |
| R G Robinson | 15 | 15 |
| | <u> </u> | <u> </u> |

R S HINGLEY

Chairman of the Remuneration Committee

CONSTELLATION CORPORATION plc

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial period 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 period 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
- 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 system of internal control for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

CONSTELLATION CORPORATION plc

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CONSTELLATION CORPORATION plc

We have audited the group and individual company financial statements (the "financial statements") of Constellation Corporation plc for the year ended 31 December 2005 which comprise the consolidated profit and loss account, the consolidated and individual company balance sheets, the consolidated cash flow statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein.

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 auditors' 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 financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985.

Emphasis of matter – Going concern

Without qualifying our opinion, we draw attention to the disclosures made in note 1 of the financial statements concerning the company's ability to continue as a going concern. The company incurred a net profit of £46,000 during the year ended 31 December 2005 and, as of that date, the company's current liabilities exceeded its total assets by £611,000. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern as it is not practicable to determine or quantify them.

Deloitte & Touche LLP

Registered auditors

Birmingham

1st June 2006

CONSTELLATION CORPORATION plc

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December 2005

| | Note | 31 December 2005 £000 | 31 December 2004 £000 |
|---|------|--------------------------|--------------------------|
| TURNOVER | 1 | <u>1,580</u> | <u>1,280</u> |
| ADMINISTRATIVE EXPENSES | 3 | <u>(1,426)</u> | <u>(1,291)</u> |
| TOTAL OPERATING PROFIT/(LOSS) | | 154 | (11) |
| Interest payable and similar charges | 4 | <u>(108)</u> | <u>(141)</u> |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | 2,5 | 46 | (152) |
| Tax on profit/(loss) on ordinary activities | 6 | <u>-</u> | <u>(23)</u> |
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | | 46 | (175) |
| Profit / (loss) per share - Basic | 8 | <u>0.00p</u> | <u>(0.02)p</u> |
| Profit / (loss) per share - Diluted | 8 | <u>0.00p</u> | <u>(0.02)p</u> |

All activity arose from continuing operations.

There are no recognised gains and losses other than the losses for the current and previous years. Accordingly, no statement of total recognised gains and losses is given.

CONSTELLATION CORPORATION plc

CONSOLIDATED BALANCE SHEET 31 December 2005

| | Notes | 31 December 2005 | | 31 December 2004 | |
|--|-------|------------------|----------------|------------------|----------------|
| | | £000 | £000 | £000 | £000 |
| FIXED ASSETS | | | | | |
| Intangible assets - Goodwill | 10 | | 959 | | 1,025 |
| Tangible assets | 11 | | - | | 6 |
| | | | <u>959</u> | | <u>1,031</u> |
| CURRENT ASSETS | | | | | |
| Debtors | 13 | 303 | | 175 | |
| Investments | 14 | - | | - | |
| Cash at bank and in hand | | 4 | | 30 | |
| | | <u>307</u> | | <u>205</u> | |
| CREDITORS: amounts falling due within one year | 15 | <u>(1,877)</u> | | <u>(1,739)</u> | |
| NET CURRENT LIABILITIES | | | <u>(1,570)</u> | | <u>(1,534)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | (611) | | (503) |
| CREDITORS: amounts falling due after more than one year | 16 | | (678) | | (832) |
| PROVISIONS FOR LIABILITIES AND CHARGES | 17 | | - | | - |
| NET LIABILITIES | | | <u>(1,289)</u> | | <u>(1,335)</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 18 | | 5,326 | | 5,326 |
| Share premium account | 19 | | 4,074 | | 4,074 |
| Other reserve | 19 | | - | | 689 |
| Profit and loss account | 19 | | (10,689) | | (11,424) |
| TOTAL SHAREHOLDERS' FUNDS | | | <u>(1,289)</u> | | <u>(1,335)</u> |

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

A C GARNER

Director

R G ROBINSON

Director

CONSTELLATION CORPORATION plc

BALANCE SHEET

31 December 2005

| | Notes | 31 December 2005 | | 31 December 2004 | |
|--|-------|------------------|----------------|------------------|-----------------|
| | | £000 | £000 | £000 | £000 |
| FIXED ASSETS | | | | | |
| Investments | 12 | | 1,225 | | 1,225 |
| CURRENT ASSETS | | | | | |
| Debtors | 13 | 95 | | 358 | |
| Cash at bank and in hand | | - | | - | |
| | | <u>95</u> | | <u>358</u> | |
| CREDITORS: amounts falling due within one year | 15 | <u>(1,189)</u> | | <u>(1,235)</u> | |
| NET CURRENT LIABILITIES | | | <u>(1,094)</u> | | <u>(877)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 131 | | 348 |
| CREDITORS: amounts falling due after more than one year | 16 | | <u>(678)</u> | | <u>(832)</u> |
| NET LIABILITIES | | | <u>(547)</u> | | <u>(484)</u> |
| CAPITAL AND RESERVES | | | | | |
| Called up share capital | 18 | | 5,326 | | 5,326 |
| Share premium account | 19 | | 4,074 | | 4,074 |
| Other reserve | 19 | | - | | - |
| Profit and loss account | 19 | | <u>(9,947)</u> | | <u>(10,573)</u> |
| TOTAL SHAREHOLDERS' DEFICIT | | | <u>(547)</u> | | <u>(484)</u> |

These financial statements were approved by the Board of Directors on

Signed on behalf of the Board of Directors

A C GARNER
Director

R G ROBINSON
Director

CONSTELLATION CORPORATION plc

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

| | Notes | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|--|-------|---|---|
| Net cash inflow from operating activities | (i) | 148 | 3 |
| Returns on investment and servicing of finance | (ii) | (108) | (115) |
| | | <hr/> | <hr/> |
| Cash flow before use of liquid resources and financing | | 40 | (112) |
| Financing | (ii) | (66) | 154 |
| | | <hr/> | <hr/> |
| (Decrease) / increase in net cash in the period | | <u>(26)</u> | <u>42</u> |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | Notes | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|---|-------|---|---|
| (Decrease) / increase in cash in the period | | (26) | 42 |
| Net movement on secured loans | | 143 | 182 |
| Directors loan advance | | (80) | - |
| | | <hr/> | <hr/> |
| Changes in net debt resulting from cash flows | | 37 | 224 |
| Net debt at start of period | (iii) | <u>(1,721)</u> | <u>(1,945)</u> |
| Net debt at end period | (iii) | <u>(1,684)</u> | <u>(1,721)</u> |

CONSTELLATION CORPORATION plc

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

(i) RECONCILIATION OF OPERATING PROFIT / (LOSS) TO OPERATING CASH FLOWS

| | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|--|---|---|
| Operating profit / (loss) | 154 | (11) |
| Depreciation | 6 | 9 |
| Amortisation | 69 | 69 |
| (Increase) / decrease in debtors | (128) | (55) |
| Increase / (decrease) in creditors | 47 | (9) |
| Net cash inflow from operating activities | <u>148</u> | <u>3</u> |

(ii) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

| | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|---|---|---|
| Returns on investments and servicing of finance | | |
| Interest received | - | - |
| Interest paid | (108) | (115) |
| Net cash outflow for returns on investments and servicing of finance | <u>(108)</u> | <u>(115)</u> |
| Financing | | |
| Net cash inflow from equity placings | - | 327 |
| Repayment of secured loans | (160) | (149) |
| Advances from Directors | 80 | - |
| Increase / (decrease) in invoice discounting | 14 | (24) |
| Net cash (outflow) / inflow from financing | <u>(66)</u> | <u>154</u> |

CONSTELLATION CORPORATION plc

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2005

(iii) ANALYSIS OF NET DEBT

| | At 1 January 2005 £000 | Cash flow £000 | At 31 December 2005 £000 |
|--------------------------------------|---|-------------------------------|---|
| Cash in hand and at bank | 30 | (26) | 4 |
| Bank overdraft | (50) | - | (50) |
| | <hr/> | <hr/> | <hr/> |
| Total for cash at bank and overdraft | (20) | (26) | (46) |
| Debt due within one year | (552) | (11) | (563) |
| Debt due after one year | (832) | 154 | (678) |
| Directors loan account | (317) | (80) | (397) |
| | <hr/> | <hr/> | <hr/> |
| | (1,721) | 37 | (1,684) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

1. ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared under the historical cost convention.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 December 2005. The results of subsidiaries sold and acquired are included in the consolidated profit and loss account up to, or from, the date control passes. Intra-Group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, all of the subsidiary assets and liabilities that exist at the date of acquisition are recorded at their provisional fair values reflecting their condition at that date.

Basis of preparation of the financial statements

Going Concern

The nature of the Group's business is such that there can be considerable unpredictable variations in trading compared to forecasts. The directors have prepared projected cash flow information for the current financial year and the following two financial years. In preparing the cash flows the directors have taken into account that a number of long overdue creditors exist which amount in total to £296,000. The directors have held discussions with these creditors with a view to offering them shares in the group in part satisfaction of their debts and / or agreeing with them further periods of extended credit. These negotiations are ongoing and their successful outcome is an important factor to the achievement of the forecasts. (refer to note 25)

On the basis of this cash flow information, the overdraft facility which continues to be subject to a quarterly review and discussions with the Group's bankers, the directors have formed a judgement at the time of approving the financial statements that the Company will be able to work within agreed overdraft facilities. On this basis, the directors consider it appropriate to prepare the financial statements on the going concern basis. However, the timings of cash flows may sometimes result in the Group having insufficient facilities to meet its obligations. The financial statements do not include any adjustments that would result from not meeting current forecasts.

Goodwill

Goodwill in respect of acquisitions arising after the introduction of FRS 10 "Goodwill and intangible assets" is shown as an asset and each acquisition is assessed to determine the useful economic life of the business and the goodwill. Goodwill relating to the acquisitions made by the Company is an inseparable part of the total value of the relevant business and such businesses if properly managed, should grow in value over the years and hence neither the value of the business nor the goodwill have a measurable economic life. Where it is considered that the value of the business or its goodwill do have a measurable economic life, the goodwill would be amortised through the profit and loss account by equal annual instalments over such useful economic life.

Goodwill arising from the acquisitions is amortised over 20 years. The directors consider this to be appropriate given the relatively high barriers of entry to the specialist field of executive search together with their commitment to investing in this business over the long term to sustain value.

The profit or loss on disposal of a previously acquired business includes the attributable amount of any purchased goodwill relating to that business not previously charged through the profit and loss account.

Where the useful economic life does not exceed 20 years, goodwill would be subject to an impairment review at the end of the first full year after acquisition and at any other time if the directors believe that impairment may have occurred. Any impairment will be charged to the profit and loss account in the period in which it arises.

Pre FRS 10 goodwill has been written off directly to reserves as a matter of accounting policy, where the business to which this relates is subsequently disposed of such goodwill will be charged to the profit and loss account.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

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

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, over the expected useful economic lives of the assets concerned:

| | |
|---|---|
| Short leasehold property and improvements | - Over the life of the lease on a straight-line basis |
| Fixtures and fittings | - 25% - 33% per annum on cost |
| Motor vehicles | - 25% straight line |

Foreign exchange

Transactions denominated in foreign currency are translated into the functional currency at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account.

Leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Deferred taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different to those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding contract to dispose of those assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Investments

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

Turnover

Turnover represents the VAT exclusive value of services provided during the year.

Pensions

The Group operates a number of defined contribution funded pension schemes for the benefit of certain employees. The costs of the pension schemes are charged to the profit and loss account as incurred.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

2. SEGMENTAL ANALYSIS

The analysis by class of business of the Group's turnover, profit/(loss) before taxation and net liabilities is set out below:

| Class of business | Turnover | | Profit/(loss) before tax | | Net liabilities | |
|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| | Year ended 31 Dec 2005 £000 | Year ended 31 Dec 2004 £000 | Year ended 31 Dec 2005 £000 | Year ended 31 Dec 2004 £000 | Year ended 31 Dec 2005 £000 | Year ended 31 Dec 2004 £000 |
| Continuing operations: | | | | | | |
| Executive search | 1,580 | 1,280 | 224 | 49 | (1,289) | (1,335) |
| Corporate central costs | | | (70) | (60) | | |
| Interest payable | | | (108) | (141) | | |
| Interest receivable | | | - | - | | |
| | | | 46 | (152) | | |
| | | | | | | |
| Geographical analysis by destination | Turnover | | Profit/(loss) before tax | | Net liabilities | |
| | Year ended 31 Dec 2005 £000 | Year ended 31 Dec 2004 £000 | Year ended 31 Dec 2005 £000 | Year ended 31 Dec 2004 £000 | Year ended 31 Dec 2005 £000 | Year ended 31 Dec 2004 £000 |
| United Kingdom | 1,530 | 1,274 | (4) | (158) | (1,289) | (1,335) |
| Europe | 15 | - | 15 | - | - | - |
| Other | 35 | 6 | 35 | 6 | - | - |
| | 1,580 | 1,280 | 46 | (152) | (1,289) | (1,335) |

Turnover by location is not materially different from turnover by destination.

3. PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

| Profit/(loss) on ordinary activities before taxation is stated after charging: | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|--|---|---|
| Depreciation and amounts written off tangible fixed assets: | | |
| Owned assets | 6 | 9 |
| Amortisation of intangible fixed assets | 69 | 69 |
| Operating lease rentals: | | |
| Land and buildings | 152 | 152 |
| Auditors' remuneration: | | |
| Audit work – Group | 20 | 15 |

The Company audit fee in the year was £10,000 (2004: £10,000).

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

4. INTEREST PAYABLE AND SIMILAR CHARGES

| | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|------------------------------|---|---|
| On bank loans and overdrafts | 108 | 113 |
| Other interest | - | 26 |
| Other finance charges | - | 2 |
| | <hr/> | <hr/> |
| | 108 | 141 |
| | <hr/> <hr/> | <hr/> <hr/> |

5. STAFF COSTS

| | Year ended 31 December 2005 No. | Year ended 31 December 2004 No. |
|--|--|--|
| The average number of full time equivalent persons (including directors) employed by the Group during the period was as follows: | | |
| Sales and related services | 5 | 4 |
| Administration | 3 | 2 |
| | <hr/> | <hr/> |
| | 8 | 6 |
| | <hr/> <hr/> | <hr/> <hr/> |
| | £000 | £000 |
| Staff costs (for the above persons): | | |
| Wages and salaries | 574 | 509 |
| Social security costs | 69 | 60 |
| Pension costs | 6 | 5 |
| | <hr/> | <hr/> |
| | 649 | 574 |
| | <hr/> <hr/> | <hr/> <hr/> |

The emoluments of the directors are disclosed as required by the Companies Act 1985 on page 7 in the Report on Remuneration. The table of directors' emoluments has been audited and forms part of these financial statements. This also includes details of the highest paid director.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

6. TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

| | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|---|---|---|
| Taxation is based on the loss for the year and comprises: | | |
| United Kingdom corporation tax at 30% based on (loss)/profit for the year | - | - |
| Adjustment in respect of previous years | - | 23 |
| | <u>-</u> | <u>23</u> |

The differences between the current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

| | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|--|---|---|
| Profit/(loss) on ordinary activities before taxation | <u>46</u> | <u>(152)</u> |
| Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%) | 14 | (46) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 25 | 22 |
| Adjustment to losses carried forward | (39) | 24 |
| Adjustments to tax in respect of prior periods | - | 23 |
| Current tax charge for the year | <u>-</u> | <u>23</u> |

7. DIVIDENDS

| | Year ended 31 December 2005 £000 | Year ended 31 December 2004 £000 |
|---|---|---|
| Other finance charges in respect of non-equity shares | <u>-</u> | <u>50</u> |

Following the preference dividend paid in April 2000, further dividends on the preference shares became due in October 2000, and then each April and October in the years 2001, 2002, 2003 and 2004. Given the lack of distributable reserves of the company at these dates, these payments could not legally be made. A reserve has been created for these dividends (see note 19)

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

8. BASIC AND DILUTED EARNINGS / (LOSS) PER ORDINARY SHARE

In accordance with FRS 14, earnings / (loss) per ordinary share of 0.00p (2004: 0.00p) has been calculated by dividing the profit on ordinary activities after taxation and non-equity dividends of £46,000 (2004: loss of £226,000) by 1,045,967,675 (2004: 1,045,967,675), being the weighted average number of ordinary shares in issue and ranking for dividend during the period. There were no preference shares at 31 December 2005 (2004: nil) available for conversion and so diluted earnings per ordinary share is also 0.00p.

9. RESULT OF PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these accounts. The parent company's loss for the year amounted to £64,000 (2004: loss of £89,000).

10. INTANGIBLE FIXED ASSETS

| Group | Goodwill £000 |
|-----------------------------------|--------------------------|
| Cost | |
| At 1 January and 31 December 2005 | 4,813 |
| Amortisation | |
| At 1 January 2005 | 3,788 |
| Charge for period | 66 |
| At 31 December 2005 | 3,854 |
| Net book value | |
| At 31 December 2005 | 959 |
| At 1 January 2005 | 1,025 |

Goodwill arising from the acquisitions is amortised over 20 years. The directors consider this to be appropriate given the relatively high barriers of entry to the specialist field of executive search together with their commitment to investing in this business over the long term to sustain value.

The directors have reviewed goodwill for impairment and consider that no adjustment is necessary to the carrying value at this time.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

11. TANGIBLE FIXED ASSETS

| | Short leasehold property and improvements £000 | Fixtures and Fittings £000 | Total £000 |
|--------------------------|---|----------------------------------|---------------|
| Cost or valuation | | | |
| At 1 January 2005 | 64 | 118 | 182 |
| At 31 December 2005 | 64 | 118 | 182 |
| Depreciation | | | |
| At 1 January 2005 | 58 | 118 | 176 |
| Charge for the period | 6 | - | 6 |
| At 31 December 2005 | 64 | 118 | 182 |
| Net book value | | | |
| At 31 December 2005 | - | - | - |
| At 31 December 2004 | 6 | - | 6 |

The Group had no capital commitments as at 31 December 2005 (2004: £Nil). These assets are owned by Group companies; the Company has no fixed assets.

12. FIXED ASSET INVESTMENTS

| Company | Shares in group undertakings £000 |
|-----------------------------------|---|
| Cost | |
| At 1 January and 31 December 2005 | 6,217 |
| Provision for impairment | |
| At 1 January and 31 December 2005 | 4,992 |
| Net book value | |
| At 31 December 2005 | 1,225 |
| At 31 December 2004 | 1,225 |

Principal Group investments

| | Country of incorporation or registration and operation | Principal activities | Description and proportion of shares held by the company |
|---------------------------------|---|-----------------------------------|--|
| Garner International Limited | England and Wales | Executive search and selection | 100% ordinary shares |

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

13. DEBTORS

| | Group | | Company | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | 2005 £000 | 2004 £000 | 2005 £000 | 2004 £000 |
| Trade debtors | 171 | 164 | - | - |
| Amounts owed by group undertakings | - | - | 94 | 355 |
| Other debtors | 96 | - | - | - |
| Prepayments and accrued income | 36 | 11 | 1 | 3 |
| | <u>303</u> | <u>175</u> | <u>95</u> | <u>358</u> |

Trade debtors are factored to the bank which lends against them as they are incurred. This lending is accounted for within bank loans and overdrafts and amounted to £88,000 at 31 December 2005 (2004: £74,000).

14. CURRENT ASSET INVESTMENTS

| GROUP | Unquoted investments £000 |
|-----------------------------------|---------------------------------|
| Cost | |
| At 1 January and 31 December 2005 | <u>50</u> |
| Provision | |
| At 31 December 2005 and 2004 | <u>50</u> |
| Net book value | |
| At 31 December 2005 | <u>-</u> |
| At 31 December 2004 | <u>-</u> |

The Group holds 100% of the preference share capital of Trac Communications Limited, a company incorporated in England and Wales. The Directors estimate the value of this investment to be £Nil (2004: £Nil). The shares are convertible on the request of the Company into ordinary shares representing 16% of the equity capital of Trac Communications Limited.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Group | | Company | |
|------------------------------------|--------------|--------------|--------------|--------------|
| | 2005 £000 | 2004 £000 | 2005 £000 | 2004 £000 |
| Bank loans and overdraft (note 23) | 614 | 602 | 526 | 529 |
| Trade creditors | 417 | 472 | 284 | 340 |
| Due to group undertakings | - | - | 25 | 25 |
| Corporation tax payable | 91 | 65 | - | - |
| Other taxation and social security | 285 | 190 | - | - |
| Other creditors | 22 | 20 | - | - |
| Directors loan account | 397 | 317 | 317 | 317 |
| Accruals | 51 | 73 | 28 | 24 |
| | <u>1,877</u> | <u>1,739</u> | <u>1,189</u> | <u>1,235</u> |

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | Group | | Company | |
|------------|--------------|--------------|--------------|--------------|
| | 2005 £000 | 2004 £000 | 2005 £000 | 2004 £000 |
| Bank loans | <u>678</u> | <u>832</u> | <u>678</u> | <u>832</u> |

A maturity analysis of the above borrowings and further details of bank loans, debentures and other loans are given in note 23.

The bank loans relate to advances from Lloyds TSB plc. The loans incur interest at 3.5% per annum above bank base rate. The loans together with the overdraft, are secured by a letter of set off and guarantee between the bank, the Company and Garner International Limited over all assets.

17. PROVISIONS FOR LIABILITIES AND CHARGES

| | Group £000 | Company £000 |
|-----------------------------------|---------------|-----------------|
| At 1 January and 31 December 2005 | <u>-</u> | <u>-</u> |

A deferred tax asset has not been recognised in respect of the losses, capital allowances and short-term timing differences as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised is £180,797. The asset would be recoverable if taxable profits arose in the Group in the future against which the assets will crystallise. The Group also has capital losses of £6,487,677. No deferred tax has been recognised in respect of these as it is unlikely that the asset will be recovered.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

18. CALLED UP SHARE CAPITAL

| | 2005 | 2004 |
|--|--------------|--------------|
| | £000 | £000 |
| Authorised: | | |
| 3,871,526,560 Ordinary shares of 0.1p each | 3,872 | 3,872 |
| 907,118,360 Deferred shares of 0.4p each | 3,628 | 3,628 |
| 1,745,226 Preference shares of 50p each | 873 | 873 |
| | <u>8,373</u> | <u>8,373</u> |
| Allotted and fully paid: | | |
| 1,167,118,360 Ordinary shares of 0.1p each | 1,167 | 1,167 |
| 907,118,360 Deferred shares of 0.4p each | 3,628 | 3,628 |
| 1,046,283 Preference shares of 50p each | 531 | 531 |
| | <u>5,326</u> | <u>5,326</u> |

Following the Capital Reconstruction in June 2004 (see below), 260,000 new Ordinary shares of 0.1p each were issued for a gross consideration of £425,000, resulting in an increase of £165,000 to the share premium account. Costs of these issues of £98,000 were debited to this account and so a net £67,000 has been added to share premium.

Capital Reconstruction

Following an Extraordinary General Meeting held on 3 June 2004 the share capital of the company was reconstructed to enable the company to issue new shares. This was necessary as the shares were trading at a price lower than the nominal value of each share. At this time:

- Each issued Ordinary Share of 0.5p was sub-divided into one new ordinary share of 0.1 pence (“New Ordinary Share”) and one deferred share of 0.4 pence (“Deferred Share”)
- Each un-issued Ordinary Share was sub-divided into 5 New Ordinary Shares of 0.1 pence each
- It was agreed that each Deferred Share would be transferable to the Company or its nominee for nil consideration.

The Deferred Shares have the following rights and restrictions:

- A holder of Deferred Shares may not by virtue of or in respect of his or her holding of Deferred Shares, have the right to receive notice of any general meeting of the Company nor the right to attend, speak or vote at any such general meeting.
- The Deferred Shares shall not entitle their holders to receive any dividends or other distribution.
- The Deferred Shares shall on a return of assets on a winding up entitle their holders only to the repayment of the amount paid up on such shares after payment of the capital paid up on the Ordinary Shares plus the payment of £10,000,000 per Ordinary Share.
- The Company shall have irrevocable authority at any time to appoint any person to execute on behalf of the holders of the Deferred Shares a transfer thereof and/or an agreement to transfer the same, without making any payment to the holders thereof, to such person as the Company may determine as custodian thereof and/or to cancel the same, without making any payment to the holders thereof and/or acquire the same (in accordance with the provisions of the Companies Act 1985) without making any payment to or obtaining the sanction of the holders thereof and pending such transfer and/or cancellation and/or purchase to retain the certificate of such shares.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

18. CALLED UP SHARE CAPITAL (continued)

5p (gross) Preference shares

The period for conversion of these shares has now passed and so they are no longer convertible. The Preference shares carried the right to a fixed cumulative preferential dividend of 5p (gross) per annum payable half yearly on 30 April and 31 October in each year in respect of the previous half year. However, During the year the company received legal advice that the preferred dividend stopped accruing on the preference shares as at 30 June 2003. Consequently, the amount previously accrued, but unpaid, of £689,000 (see note 19) and held as an other reserve has been transferred to the profit and loss account in the current year.

On a return of capital on a winding-up, the holders of the Preference shares will have a preferential right to repayment of 100p per share and all arrears of fixed cumulative dividend but will have no right to participate in any surplus.

The holders of the Preference shares will have the right to receive notice of and attend General Meetings of the Company, but will only be entitled to vote thereat if their fixed cumulative preferential dividend is six months or more in arrears, or if Convertible Preference shares required to be redeemed by the Company have not been redeemed, or if a receiver or administrative receiver to the Company has been appointed, or on a resolution of abrogating, varying or modifying any of their class rights or privileges or for the winding-up of the Company.

The Company should have redeemed any unconverted Convertible Preference shares on 31 January 2003. The amount payable on redemption would have been the sum of 100p for each 50p share plus any arrears or accruals of the fixed dividend thereon. The Company had insufficient distributable reserves at this time and therefore no redemption was possible. The conversion period has now expired and so the Convertible Preference shares are no longer convertible.

19. SHARE PREMIUM ACCOUNT AND RESERVES

| Group | Share premium account £000 | Other reserve £000 | Profit and loss account £000 | Total £000 |
|-----------------------|---|-----------------------------------|---|-----------------------|
| At 1 January 2005 | 4,074 | 689 | (11,424) | (6,661) |
| Profit for the period | - | - | 46 | 46 |
| Transfers | - | (689) | 689 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2005 | 4,074 | - | (10,689) | (6,615) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The cumulative amount of goodwill from pre 27 July 1997 acquisitions which has been written off to Group reserves, after deducting goodwill attributable to subsidiary undertakings disposed of is £411,000 (2004: £411,000).

| Company | Share premium account £000 | Other reserve £000 | Profit and loss account £000 | Total £000 |
|---------------------|---|-----------------------------------|---|-----------------------|
| At 1 January 2005 | 4,074 | 689 | (10,573) | (5,810) |
| Loss for the period | - | - | (63) | (64) |
| Transfers | - | (689) | 689 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 2005 | 4,074 | - | (9,947) | (5,874) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2005 | 2004 |
|--|----------------|----------------|
| | £000 | £000 |
| Profit / (loss) for the financial period | 46 | (175) |
| Finance charges in respect of non-equity shares | - | (50) |
| | <u>46</u> | <u>(225)</u> |
| Issue of share capital | - | 260 |
| Premium on issue of new shares | - | 67 |
| Creation of other reserve for finance charges on non-equity shares | - | 50 |
| | <u>46</u> | <u>152</u> |
| Net addition to shareholders' funds | 46 | 152 |
| Opening shareholders' deficit | (1,335) | (1,487) |
| Closing shareholders' deficit | <u>(1,289)</u> | <u>(1,335)</u> |

21. COMMITMENTS

Operating leases

At 31 December 2005, the Group had annual commitments under non-cancellable operating leases which expire as follows:

| | Land and buildings | |
|---|---------------------------|-------------|
| | 2005 | 2004 |
| | £000 | £000 |
| In less than one year | 120 | 152 |
| In more than one but less than two years | 120 | - |
| In more than two but less than five years | 360 | - |
| | <u>600</u> | <u>152</u> |

22. PENSION COSTS

The Group operated several defined contribution pension schemes for the retail business. The assets of the schemes were held separately from those of the Group in independently administered funds. The pension cost represents contributions payable by the Group to the funds and amounts to £6,000 (2004: £5,000).

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

23. FINANCIAL INSTRUMENTS

Derivatives and other financial instruments

The Group's financial instruments comprise borrowings, some cash and liquid resources and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has not entered into any derivative transactions in the year. The Group does not trade in financial instruments.

The Group has taken advantage of the exemptions available under Financial Reporting Standard No. 13 not to provide numerical disclosures in relation to short-term debtors and creditors.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and currency risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group finances operations through bank borrowings and finance leases. At the year-end all of the Group's bank borrowings were at floating rates of interest. It is the Group's policy to have all borrowings at a floating rate of interest and this policy is reviewed periodically to ensure it is appropriate.

Liquidity risk

The Group's policy is to retain a balance between short-term flexibility, achieved through overdraft facilities, and longer term planning through longer-term instalment debt. At the year-end, 27% of bank borrowings were overdrafts.

The maturity profile of the Group's financial liabilities is given below.

Currency risk

The Group's policy is not to hedge transactions, and buy and sell currency at spot rate where applicable. Each company has assets and liabilities in its native currency only.

Financial assets:

£4,000 (2004: £30,000) of cash at bank and in hand is held in the Group, all denominated in Sterling. All financial assets attract interest at floating rates, and are based on national bank offering rates.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 December 2005

23. FINANCIAL INSTRUMENTS (continued)

Financial liabilities

MATURITY PROFILE OF FINANCIAL LIABILITIES

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2005 £000 | 2004 £000 | 2005 £000 | 2004 £000 |
| Analysis of loan repayments | | | | |
| Bank loans and overdrafts: | | | | |
| In one year or less or on demand | 614 | 602 | 526 | 529 |
| In more than one year but not more than two years | 156 | 144 | 156 | 144 |
| In more than two years but not more than five years | 468 | 418 | 468 | 418 |
| In more than five years | 54 | 270 | 54 | 270 |
| Debentures and other loans: | | | | |
| In one year or less or on demand | - | - | - | - |
| Directors' loan accounts | | | | |
| In one year or less or on demand | 397 | 317 | 317 | 317 |
| | <u>1,689</u> | <u>1,751</u> | <u>1,521</u> | <u>1,678</u> |

The Group had no undrawn committed borrowing facilities at the year end (2004: nil).

INTEREST RATE PROFILE

The interest rate profile of the Group's financial liabilities was:

| | 2005 £000 | 2004 £000 |
|--|--------------|--------------|
| Floating rate financial liabilities | 1,292 | 1,434 |
| Fixed rate financial liabilities | - | - |
| Non interest bearing financial liabilities | | |
| - non equity shares | - | - |
| - directors loan account | 397 | 317 |
| | <u>1,689</u> | <u>1,751</u> |

Floating rate liabilities represent bank borrowings and overdrafts that bear rates of interest at between 2.0% and 3.5% above the base rate.

All of the financial instruments are held in the UK in Sterling.

CONSTELLATION CORPORATION plc

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2005

23. FINANCIAL INSTRUMENTS (continued)

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Set out below is a comparison by category of book values and fair values of the Group's financial liabilities which are all denominated in sterling:

| | 2005 | | 2004 | |
|-----------------------------------|--------------------|--------------------|--------------------|--------------------|
| | Book value £000 | Fair value £000 | Book value £000 | Fair value £000 |
| Bank overdraft | 50 | 50 | 50 | 50 |
| Bank loan | 1,242 | 1,242 | 1,384 | 1,384 |
| Directors loan | 397 | 397 | 317 | 317 |
| | <u>1,689</u> | <u>1,689</u> | <u>1,751</u> | <u>1,751</u> |
| Non-equity share redemption value | - | - | - | - |
| | <u>1,689</u> | <u>1,689</u> | <u>1,751</u> | <u>1,751</u> |

The fair value of cash at bank and in hand is not materially different from its book value.

24. RELATED PARTY TRANSACTIONS

During the year A C Garner loaned the Group £80,000 in addition to the loans made by himself and some of the other directors to assist with its working capital requirements. The balances on these loan accounts at 31 December 2005 were: A C Garner £372,000 (2004:£292,000), J Bartle £12,500 (2004: £12,500) and R S Hingley £12,500 (2004: £12,500). These loans are non interest bearing and at the Balance Sheet date none of these loans had any agreed repayment terms.

In addition, A C Garner has guaranteed £200,000 of bank overdraft and J Bartle and B R Lakefield have jointly guaranteed a further £100,000 of bank overdraft.

During the year ended 31 December 2002, the Company obtained acquisitions advisory services of £48,000 from Anderson Barrowcliff where R G Robinson is a partner. This amount was outstanding at 31 December 2005 and 31 December 2004.

25. POST BALANCE SHEET EVENT

The Company is proposing to carry out a share capital reorganisation, the effect of which will be to reduce the number of shareholders, and to increase the nominal value of each share to enable the Company to effect a Placing and Debt Capitalisation Issue.

The Company has also agreed to place 3,785,714 New Ordinary Shares to raise £132,500, and to convert certain debts owed to third parties into New Ordinary Shares by way of a Debt Capitalisation Issue.