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DX Group Limited

Report and financial statements
for the year ended 30 June 2009

Company number 05769062

DX Group Limited

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Directors and advisers

Directors

Executive directors:

Petar Cvetkovic

Ian Pain

Non-executive directors:

David Hoare (Chairman)

Mark Dickinson

Alexis Dormandy

Jerry Tebbutt

Company secretary

Ian Pain

Auditors

Deloitte LLP

Reading

Bankers

Bank of Scotland

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Solicitors

Linklaters LLP

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Registered office

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Iver

Buckinghamshire SL9 0JQ

Registered number

05769062

Directors' report

The directors present their report and the audited financial statements for the year ended 30 June 2009.

Subsequent to the year end the group has completed a financial restructuring, further details of which are set out on page 8.

Results and dividends

The loss for the financial year after taxation was £287.2 million (2008: £39.8 million), after charging exceptional costs of £238.1 million (2008: £3.8 million) and goodwill amortisation of £24.1 million (2008: £24.1 million).

The directors do not recommend the payment of a dividend on the ordinary shares (2008: £nil).

Principal activities and review of the business

The group's continuing activities are the provision of mail services. The principal activity of the company is that of a holding company.

The DX group ('DX') is the leading independent provider of early morning, next day business to business mail and parcel services in the United Kingdom and the Republic of Ireland, and of secure mail services in the UK; over 17,000 companies use the Document Exchange or mail and parcel services to send time critical and secure mail.

The group offers five main products:

- DX Exchange - a business to business mail service that provides customers with significant cost and performance advantages over the Royal Mail first class and is delivered through a national network comprising over 25,000 boxes and 4,500 exchanges in the UK together with approximately 5,000 boxes in 230 exchanges in the Republic of Ireland. The primary markets include the legal, government and financial services sectors.
- DX Mail – a nationwide business to business mail service offering both next day and two day delivery options, serving a number of sectors including insurance and travel; and a nationwide service of business and professional publications for both next day and two/three day services, covering magazines, newsletters, company reports and training material.
- DX Courier - leverages synergies with the DX Exchange delivery infrastructure to create market leading cost advantages for packet delivery to branch networks in high street and retail park locations. The primary focus for packet delivery services is high street retailers and businesses that require regular scheduled deliveries to branch networks.
- DX Secure - provides a highly secure nationwide collection and delivery courier service with flexible redelivery options, ranging from mandatory signature to secure post mail capability. It provides market leading business to consumer mail security at a highly competitive price to customers that range from Government agencies and banks through to theatre ticket agencies.
- DX Business Direct – provides in-night logistics services as an integral part of our customers' overall supply chain solution. Flexible solutions, including reverse logistics processing, enable our customers to meet their service commitments efficiently with on time delivery of time-critical parts and other valuable consignments to one of a national network of over 350 remotely controlled Parcel Exchanges or direct to recipients' vehicles. Collections from UK and European distribution centres are delivered nationwide across the UK by 0800 hours the following day, with the returns process completed within 24 to 72 hours.

Business objectives and strategies

The key elements of the group's strategy for accelerating growth and creating shareholder value continue to be:

- achievement of leading positions in markets capable of long term growth;

Directors' report

- targeted investment in new product development, innovation and marketing to support strong organic growth and profitability;
- investment in new technology to improve both operational efficiency and customer service levels; and
- focussed acquisitions which meet strict rate of return criteria.

In the current depressed economic environment the following shorter term strategies have also been developed to run along side the main objectives detailed above:

- control the cost base to address current volume reductions without damaging the medium term prospects of the business;
- roll out the revitalised product offerings developed under the recently revised branding exercise;
- exploit the revenue growth opportunities offered by the Business Direct acquisition (in September 2008) and integrate the operational network to deliver profit growth; and
- develop and roll out where appropriate new product opportunities identified.

Key financial and other performance objectives

DX Group volumes are sensitive to movements in the housing, banking and retail sectors. The current economic recession has led to a reduction in volumes across all the product categories impacted by these sectors.

The group's key financial and other performance indicators during the current year and previous period were as follows:

	2009	2008	Change
Group turnover (£m)	£170.4m	£173.6m	- £3.2m
Operating profit before exceptional items, business plan implementation costs and goodwill amortisation (£m)	£30.0m	£41.1m	- £11.1m
As a percentage of turnover (%)	17.6%	23.7%	- 6.1%
Loss after tax (£m)	£287.2m	£39.8m	+ £247.4m
Total assets less current liabilities (£m)	£169.8m	£426.4m	- £256.6m
Third party interest cover (times)	1.3 x	1.5 x	- 0.2 x
Net cash flow from operating activities (£m)	£27.8m	£39.0m	- £11.2m
Average number of employees (no.)	1,757	1,687	+ 70

On 1 September 2008 the group acquired the In-Night and PX Worldwide Licensing operations of Business Direct Limited, a wholly owned subsidiary of Business Direct Group plc. The acquisition was effected by acquiring the trade and fixed assets of the operations from the Administrator of Business Direct Limited through a newly formed subsidiary, DX Business Direct Limited.

The acquisition gives the group a national infrastructure to provide spare part logistics, primarily supporting field based engineers, through:

- the Parcel Exchange ('PX') – a 'virtual depot' network of over 4,000 fully automated intelligent drop boxes;
- In Boot – collections and deliveries direct to a field engineer's vehicle;
- Pick Up Drop Off – the collection and return of spare parts via manned third party locations; and
- the potential to licence the PX technology and expertise internationally.

Directors' report

The consideration paid to the Administrator was £0.5 million. In addition, the company made 'goodwill payments' to suppliers and costs totalling £1.3 million. The fair value of the assets acquired was £2.1 million, giving rise to negative goodwill of £0.3 million. A further investment of £0.8 million in working capital was made in the year. In aggregate the total investment required was £2.6 million.

The acquisition of these operations represents the opportunity for the group to:

- become a leading player in the adjacent service management market;
- improve efficiency and reduce costs through the integration of aspects of these operations with existing DX operations;
- use the secure PX network to extend the services we offer to existing customers;
- market the PX concept internationally via licensing arrangements; and
- develop the emerging potential for extending the PX concept to service the rapidly expanding B2C market.

Group turnover decreased during the year by 1.8%. On a like for like basis (excluding the contribution from DX Business Direct), turnover decreased by 6.9%:

- Exchange revenues are particularly susceptible to changes in the housing market. House sales in England and Wales in the year ended June 2009 were 546,600, compared with 985,800 in the previous year, a reduction of 45%. Against this background, Exchange turnover in the year to June 2009 was 5.2% less than the previous year.
- Courier turnover is derived from the movement of parcels and packets to and from high street locations. Reduced activity in the retail sector caused Courier turnover to decline by 7.3% compared to the previous year.
- The main source of growth in Mail turnover came from increased penetration of the publications market.
- Secure turnover is heavily dependant on both the number of debit and credit cards issued by the UK's leading banks and the number of passports issued. The economic climate reduced the numbers of debit and credit cards being issued and also the number of passports being applied for. In addition, some banks are using less secure methods for delivering cards to their customers. As a consequence, Secure turnover declined by 13.5% in the year.
- DX Business Direct contributed £8.7 million to group turnover since the acquisition of the Business Direct trade in September 2008. On an annualised basis, turnover increased by 24% compared to the twelve months to June 2008 under its previous ownership.

Operating profit before exceptional items and goodwill amortisation decreased as a percentage of turnover from 23.7% to 17.6%. The DX (Exchange and Courier) network has a high proportion of fixed costs which cannot be proportionally reduced in response to declining volumes in the short term. Whilst operating profit was supported by the activities undertaken during the current and previous year to improve the efficiency of the group's collection and delivery operations, the directors have ensured that the capacity of the networks has been maintained and improved so as to take advantage of anticipated increases in volumes as the economy recovers.

After impairment charges of £236.9 million, other exceptional charges of £1.2 million, goodwill amortisation of £24.1m, third party interest costs of £22.7 million, shareholder related interest costs of £31.0 million (including accrued preference dividends of £21.0 million) and a tax charge of £1.3 million, the loss after tax was £287.2 million, compared with £39.8 million in the year to 30 June 2008.

Directors' report

Total assets less current liabilities reduced by £256.6 million during the year, of which £236.9 million arises from impairment charges, £24.1 million arises from the amortisation of goodwill and £31.0 million arises from non cash, shareholder related, interest charges. Without these charges, total assets less current liabilities would have increased by £35.4 million. Net current liabilities reduced by £1.8 million.

The reduction in operating profit has an adverse impact on third party interest cover (operating profits excluding exceptional items and goodwill amortisation, divided by third party interest). Although third party interest costs benefitted from the reduction in interest rates, interest cover decreased from 1.5 times to 1.3 times.

Net cash flow from operating activities decreased from £39.0 million to £27.8 million. £7.7 million of the reduction was the result of the decrease in operating profit before impairment charges and goodwill amortisation and £3.5 million from working capital movements, of which £1.6 million was the result of the working capital investment in DX Business Direct.

Numbers employed in the group increased during the year as a result of the acquisition of the Business Direct trade.

Employee matters

DX employs a culturally diverse workforce representative of the local population in the areas where we operate. We are committed to providing equal opportunities of employment to all staff. The group's policies on recruitment, training, career development and promotion are based solely on the ability of the individual and the needs of the group's business.

Disabled persons are given equal treatment with the able bodied. For employees who have become disabled after joining the group, every effort is made to enable them to continue in employment and suitable retraining and/or an offer of alternative employment is provided where possible.

DX has a number of stakeholder pension schemes, and actively encourages participation in these schemes. The group continues to invest in its people with a dedicated specialist in reward structures and an ongoing programme of performance management, learning and development. A number of voluntary benefits have been introduced to support employees' welfare. These include childcare vouchers, life assurance and medical health cover along with a discounted holiday scheme.

The group has had a successful second year of NVQ passes, and continues the Institute of Leadership Management ('ILM') programmes throughout the business, following the ILM accreditation last year.

Each member of the senior management team takes personal responsibility for communicating with a part of the business. Employees are given opportunities to talk candidly with a member of the senior management team.

DX wishes to have the considered views of employees over a wide range of subjects and thus encourages an active interest in company activities at all levels. This aim is achieved through a fully representative 'Employee Partnership' programme, which ensures two way communications and employee involvement. The group has redesigned its communication and consultation forums, holding representative elections with considerable success. Monthly news bulletins are distributed throughout the group and a quarterly newspaper is produced with a mixture of business and employee news.

Environment matters

DX is committed to being an environmentally responsible group and aims to manage its activities in line with environmental legislation and to minimise the impact on the environment.

Directors' report

Social responsibility

Since 1997, DX has been providing a nationwide service conveying boxes of recycled spectacles for Vision Aid Overseas. Vision Aid Overseas' work is focused on helping people in the developing world whose existence has been blighted by poor eyesight. DX collect and consolidates donated spectacles from opticians' practices in the United Kingdom resulting in an average of 1.1 million pairs of spectacles being delivered to Vision Aid Overseas' offices throughout the course of each year.

DX donates its services to allow Vision Aid Overseas to concentrate its funds directly on the projects it supports. Without a reliable delivery service that ensures the efficient and consistent collection of donated spectacles from across the country, Vision Aid Overseas' work would be severely hampered. DX is delighted to be able to help VAO make such a positive impact on so many peoples' lives.

Significant contractual and other relationships

The group has a number of important relationships with its customers, suppliers and bankers. No single customer accounts for more than 10% of the group's sales and no single supplier accounts for more than 5% of the group's purchases. Contracts with the group's major customers tend to cover periods of up to three years.

The group's lending is provided by a syndicate of banks, with Bank of Scotland plc acting as the syndicate agent. Bank of Scotland also provides the group with its day to day banking arrangements.

Main trends and factors likely to affect future performance

The main trends and factors likely to affect the future development and performance of the group's business continue to include:

The property market: The decline in the UK property market has reduced the number of property transactions and therefore the volumes of property-related documentation being carried through the Exchange network. The group continues to introduce new initiatives to increase usage and volumes from existing customers and to widen the network's sector coverage.

The 'credit crunch': The 'credit crunch' throughout the UK economy has reduced volumes being carried through the group's network in a number of areas, but in particular bank cards and passports. The group continues to explore new sectors that are able to benefit from the group's high standards of secure delivery to ensure that the reduction in overall volumes being carried through the network is minimised.

Fuel prices: With diesel prices once again increasing, the group's suppliers of trunking and courier services are seeking to recover these price increases in their contract prices. The group is taking a number of actions to mitigate these cost increases, including ensuring that cost increases are passed onto customers wherever possible.

Principal risks and uncertainties

The group has established a risk management programme to identify the main risks that the group is exposed to and ensure that appropriate policies and procedures are in place to minimise these risks to the group, including the establishment of appropriate business continuity planning arrangements.

The principal risks that the group faces broadly comprise commercial risks and financing risks.

Directors' report

Commercial risks: The main commercial risks that the business currently faces are:

Risk	How the risk is managed
Competition from Royal Mail and other mail providers	By providing high levels of service quality at competitive prices, maintaining strong relationships with major customers and developing new services in response to customer needs.
The challenges of operating in a highly regulated environment	By implementing processes within the network and a rigorous programme of mail integrity audits.
Reductions in volumes to below economic levels	By seeking to win business in new sectors and developing cost reduction strategies to minimise the impact of volume reductions.

Financing risks: Total borrowings of £326.0 million at 30 June 2009 include £74.9 million of Investor Loan Notes held by shareholders and £250.4 million of bank loans drawn down under a £225.0 million senior facilities agreement, expiring on 31 December 2015 and a £57.2 million mezzanine facility agreement, expiring on 30 June 2016. Both bank facilities bear interest at floating rates. In order to manage interest rate risk on the bank borrowings, interest rate swaps have been used to convert a proportion of the bank borrowings to fixed rate borrowings. At 30 June 2009, debt of £118.7 million (47% of total bank debt) was converted to a fixed interest rate.

The group's interest rate swaps expired on 30 September 2009. The swaps were not replaced at that time, but new arrangements will be entered into under the restructuring of the group's finances explained below.

DX's exposure to credit and foreign exchange risks is not considered to be significant and it has not implemented any specific strategies for managing these risks.

Future developments

As previously noted, the group has been negatively impacted since 2008 by the economic slowdown, which has reduced volumes across all product categories. Volume reductions are directly linked to economic confidence and are therefore viewed as temporary in nature. However, the exact timing of any recovery is difficult to estimate and the planned development of the group has inevitably been delayed.

Nevertheless, the directors aim to maintain the progress that the group has made since it came into being in September 2006 through further enhancement of the group's product range and to continue the programme of activities to increase the efficiency of the group's operations. Consideration will be given to the development of new services and penetration of new market segments where this will lead to profitable and sustainable growth.

Events after the balance sheet date

Changes to the board of directors

On 9 April 2010 David Mitchell resigned as director and chairman. On 12 April 2010 John Coghlan stepped back from his role as Chief Executive Officer, remaining on the board in his previous capacity as non-executive director. Mike Stone resigned as a director on 30 April 2010.

David Hoare and Petar Cvetkovic were appointed to the Board on 12 April 2010, adopting the roles of non-executive Chairman and Chief Executive respectively.

The Board would like to formally recognise its thanks to David Mitchell, John Coghlan and Mike Stone for leading the group during the tough trading conditions of the recent recession.

Directors' report

Restructuring of group organisation and finances

On 19 July 2010 the group implemented a capital and debt restructuring with its controlling party and its lenders, the principal terms of which are:

- a new group corporate organisation structure has been implemented. DX Group Limited remains as the UK holding company but all of its shares are now owned by DX Group Holdings (Cayman) No 1 Limited, a company registered in the Cayman Islands but resident in the UK for tax purposes. The company's controlling party remains unchanged, being funds managed by Candover Partners Limited;
- the final maturity date of the Term Loan A facility ('TLA') (£26.4 million as at 30 June 2009) has been extended from 30 June 2013 to 31 December 2014;
- the final maturity date of the Term Loan B facility (TLB) (£70.0 million as at 30 June 2009) has been extended from 30 June 2014 to 30 June 2016;
- the final maturity of the Term Loan C facility ('TLC') (£70.0 million as at 30 June 2009) has been extended from 30 June 2015 to 1 August 2016;
- all existing cash pay interest margins of the TLA, TLB and TLC remain unchanged. A further interest charge, payable on final repayment of the respective facilities, shall accrue on TLA, TLB and TLC at the rate of 1.5% per annum;
- the final maturity date of the Term Loan D facility ('TLD') (£20.0 million as at 30 June 2009) has been extended from 31 December 2015 to 1 August 2017, and the interest rate thereon is reduced from LIBOR plus 5.25% to the lower of LIBOR and 1.5% per annum;
- the £64.0 million of mezzanine principal and accrued interest owed by the group as at 30 June 2009 has been acquired by a partnership between the company's controlling party, the former mezzanine lenders and the group's senior management team and consequently will cease to be classified as bank loans;
- the existing cash pay interest margin on the mezzanine facility of LIBOR plus 4.25% has been converted to an accrued interest margin and added to the existing accrued margin of 4%, payable on final maturity of the facility;
- a new set of financial covenants has been agreed with the group's lenders;
- the group is required to enter into interest rate hedging arrangements in respect of 67% of the group's TLA, TLB and TLC facilities for a three year period;
- the company's controlling party has invested £15.0 million by means of a zero coupon subordinated loan;
- the 11% cumulative redeemable preference shares and accrued dividends (totalling £213.3 million as at 30 June 2009) have been converted into a new class of deferred ordinary shares with no rights to income; and
- costs of approximately £7.5 million have been incurred by the group in effecting this restructuring, most of which will be charged against profits as an exceptional item in the financial statements for the year ending 30 June 2010.

As a result of the refinancing:

- the combined effect of the extensions to the TLA, TLB, TLC and TLD facilities is to reclassify £64.8 million of debt falling due for payment within two to five years as at 30 June 2009 to falling due for payment after more than five years at that date;
- total third party debt due after more than one year at 30 June 2009 would have been reduced by £62.6 million to £176.2 million;
- total shareholder related loans would have reduced by £134.7 million to £152.4 million;

Directors' report

- the ratio of third party creditors falling due after more than one year to operating profit before depreciation, exceptional items and goodwill amortisation would have reduced from 6.9 to 5.1; and
- future cash interest payments will be reduced.

The table below illustrates the effect on the consolidated balance sheet had the refinancing been completed at 30 June 2009:

	Audited £m	Pro forma £m
Total fixed assets	190.2	190.2
Net current liabilities	(20.4)	(5.4)
Total assets less current liabilities	169.8	184.8
Third party creditors falling due after more than one year	238.8	176.2
Provisions for liabilities and charges	1.0	1.0
	239.8	177.2
Shareholders' funds	(357.1)	(144.8)
Shareholder related loans	287.1	152.4
	169.8	184.8

Full pro forma consolidated balance sheets are set out as an appendix to the financial statements on page 40 to demonstrate the impact of the capital and debt refinancing had it been implemented at 30 June 2009.

Going concern

The directors are confident that the restructured and refinanced group will have the appropriate capital structure to enable it to invest in facilities, equipment and staff as required and to continue in operational existence for the foreseeable future. Thus they continue to adopt a going concern basis in preparing the financial statements.

Further details regarding the adoption of the going concern basis can be found in the statement of accounting policies in note 1 to the financial statements.

Share capital and ownership

The company's authorised and issued share capital and movements therein are shown in note 19 to the financial statements.

The majority shareholder in the company is funds managed by Candover Partners Limited, a private equity investor headquartered in the United Kingdom, represented on the Board of directors by Mark Dickinson and Alexis Dormandy.

At 30 June 2009, 10.6% of the ordinary shares of the company was owned by the directors and other members of the management team and a further 5.1% was owned by the group's employee benefit trust.

As a result of the financial restructuring referred to above, the whole of the company's ordinary and preference share capital has been acquired by DX Group Holdings (Cayman) No 1 Limited.

Directors' report

Directors

The directors at the end of the financial year were as follows:

Non-executive Chairman:

David Mitchell

Executive directors:

John Coghlan	Chief Executive
Ian Pain	Chief Financial Officer
Michael Stone	Chief Operating Officer

Other Non-executive directors – representatives of Candover Partners Limited:

Alexis Dormandy

Ian Gray

Emma Watford

In addition to the above, Alan Whelan, Bill Rogers and James Greenbury served as directors until their resignations on 18 July 2008, 4 June 2009 and 30 June 2009 respectively.

Subsequent to the end of the year:

- Emma Watford, Ian Gray, David Mitchell and Michael Stone resigned as directors on 7 August 2009, 7 September 2009, 9 April 2010 and 30 April 2010 respectively;
- John Coghlan stepped down from his role as Chief Executive on 12 April 2010, from which date he continued to serve as a non-executive director until 20 July 2010, when he resigned;
- Mark Dickinson was appointed as a director representing Candover Partners Limited on 21 July 2009;
- Petar Cvetkovic and David Hoare were appointed as directors in the roles of Chief Executive and non-executive Chairman respectively on 12 April 2010; and
- Jerry Tebbutt was appointed as a non-executive director on 20 July 2010.

There have been no other changes since the end of the year.

Charitable and political donations

The group provides support to Vision Aid Overseas ('VAO') by collecting and distributing, at no charge, spectacles within the UK for reconditioning and onward transportation to Africa for reuse. Financial support was also provided to VAO in the form of sponsorship of its annual review and other projects, amounting to £4,000 (2008: £4,000).

Other charitable donations in the year amounted to £1,469 (2008: £1,000).

No payments were made to political parties.

Payments to suppliers

It is the group's policy to make payments to suppliers in accordance with agreed terms, provided that the supplier has performed in accordance with those agreed terms and conditions. Creditor days (creditors outstanding at the year end as a proportion of purchases in the last month of the year) for the group at 30 June 2009 were 12.8 days (2008: 10.3 days).

Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Directors' report

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an annual general meeting.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's and the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements.

Directors' and officers' insurance and indemnities

The company maintains appropriate directors' and officers' liability insurance for the benefit of the directors.

Approved by the board and signed on its behalf by:

Ian Pain

Company Secretary

20 July 2010

DX House

Ridgeway

Iver

Buckinghamshire SL0 9JQ

**Independent auditors' report
to the members of DX Group Limited**

We have audited the financial statements of DX Group Limited for the year ended 30 June 2009 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2009 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Independent auditors' report
to the members of DX Group Limited**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Mark Mullins (Senior Statutory Auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Reading, United Kingdom

20 July 2010

DX Group Limited

Consolidated profit and loss account for the year ended 30 June 2009

	Notes	2009 £m	2008 £m
Turnover:			
Existing operations		161.7	173.6
Acquisitions		8.7	-
	2	170.4	173.6
Operating costs before exceptional items and goodwill amortisation	3	(140.4)	(132.5)
Operating profit before exceptional items and goodwill amortisation		30.0	41.1
Exceptional items – impairment charges	3, 6	(236.9)	-
Exceptional items – other	3, 6	(1.2)	(3.8)
Goodwill amortisation	3	(24.1)	(24.1)
<i>Total operating costs</i>	3	<i>402.6</i>	<i>160.4</i>
Total operating (loss)/profit:			
Existing operations		(231.1)	13.2
Acquisitions		(1.1)	-
		(232.2)	13.2
Finance charges (net):			
Third party		(22.7)	(25.7)
Shareholder related		(31.0)	(27.7)
Total finance charges (net)	7	(53.7)	(53.4)
Loss on ordinary activities before taxation		(285.9)	(40.2)
Tax on loss on ordinary activities:			
Before exceptional items and goodwill amortisation		(1.3)	(0.6)
Exceptional items and goodwill amortisation		-	1.0
Total tax on loss on ordinary activities	8	(1.3)	0.4
Loss on ordinary activities after taxation:	9		
Before exceptional items and goodwill amortisation		(25.0)	(13.0)
Exceptional items and goodwill amortisation		(262.2)	(26.8)
Loss for the year transferred from reserves	20	(287.2)	(39.8)

Consolidated statement of total recognised gains and losses for the year ended 30 June 2009

	2009 £m	2008 £m
Loss for the financial year	(287.2)	(39.8)
Currency translation difference on foreign currency net investments	-	0.3
Total gains and losses relating to the year	(287.2)	(39.5)

DX Group Limited

Consolidated balance sheet as at 30 June 2009

	Notes	2009 £m	2008 £m
Fixed assets:			
Goodwill		178.7	437.8
Negative goodwill		(0.3)	-
Intangible fixed assets	10	178.4	437.8
Tangible fixed assets	11	11.8	10.8
		190.2	448.6
Current assets:			
Debtors	14	33.3	34.4
Cash at bank and in hand		3.3	11.8
		36.6	46.2
Creditors: amounts falling due within one year	15	(57.0)	(68.4)
Net current liabilities		(20.4)	(22.2)
Total assets less current liabilities		169.8	426.4
Creditors: amounts falling due after more than one year:	16		
Third party		238.8	239.5
Shareholder related		287.1	256.1
		525.9	495.6
Provisions for liabilities and charges	18	1.0	1.1
		526.9	496.7
Capital and reserves:			
Called up share capital	19	0.6	0.6
Share premium account	20	5.6	5.6
Own shares	20	-	(0.4)
Profit and loss account	20	(363.3)	(76.1)
Shareholders' funds	20	(357.1)	(70.3)
		169.8	426.4

The financial statements of DX Group Limited, registered number 05769062, were approved and authorised for issue by the board of directors on 20 July 2010 and signed on its behalf by:

Petar Cvetkovic

Ian Pain

A pro forma consolidated balance sheet, adjusted to include the effects of the restructuring of the group's finances, as described in note 28, is set out in the appendix to the financial statements on page 40, and summarised in the directors' report on page 9.

DX Group Limited

Company balance sheet as at 30 June 2009

	Notes	2009 £m	2008 £m
Fixed assets:			
Investments	12	164.0	164.0
		164.0	164.0
Current assets:			
Debtors	14	3.6	1.9
Cash at bank and in hand		0.1	0.1
		3.7	2.0
Creditors: amounts falling due within one year	15	(3.2)	(4.9)
Net current assets/(liabilities)		0.5	(2.9)
Total assets less current liabilities		164.5	161.1
Creditors: amounts falling due after more than one year	16	216.0	191.2
Capital and reserves:			
Called up share capital	19	0.6	0.6
Share premium account	20	5.6	5.6
Profit and loss account	20	(57.7)	(36.3)
Shareholders' funds	20	(51.5)	(30.1)
		164.5	161.1

The financial statements of DX Group Limited, registered number 05769062, were approved and authorised for issue by the board of directors on 20 July 2010 and signed on its behalf by:

Petar Cvetkovic

Ian Pain

A pro forma company balance sheet, adjusted to include the effects of the restructuring of the group's finances, as described in note 28, is set out in the appendix to the financial statements on page 40.

DX Group Limited

Consolidated cash flow statement for the year ended 30 June 2009

	Notes	2009 £m	2008 £m
Net cash flow from operating activities	21	27.8	39.0
Returns on investment and servicing of finance:			
Interest received		0.3	0.9
Interest paid		(19.1)	(22.9)
Net cash outflow from returns on investment and servicing of finance		(18.8)	(22.0)
Taxation:			
UK corporation tax paid		-	(1.5)
Foreign tax paid		(0.7)	(0.5)
Tax paid		(0.7)	(2.0)
Capital expenditure:			
Payments to acquire tangible fixed assets		(6.2)	(4.2)
Net cash outflow from investing activities		(6.2)	(4.2)
Acquisitions:			
Purchase of Secure Mail Services Limited	13	(3.4)	(11.0)
Purchase of Challenger Security Services (Admin) Limited	13	(0.2)	(0.4)
Purchase of Business Direct trade	10	(1.7)	-
Loan to employee benefit trust to acquire shares in DX Group Limited		(0.1)	(0.4)
Net cash outflow from acquisitions		(5.4)	(11.8)
Net cash outflow before financing		(3.3)	(1.0)
Financing:			
Issue of share capital		-	0.1
Bank borrowings		1.9	-
Bank borrowings repaid		(6.4)	(3.3)
Payment of loan issue costs		(0.6)	-
Repayment of finance leases		(0.2)	(0.3)
Net cash outflow from financing		(5.3)	(3.5)
Decrease in cash in the year	22	(8.6)	(4.5)
Exchange differences		0.1	0.2
		(8.5)	(4.3)

**Notes to the financial statements
for the year ended 30 June 2009**

1 Significant accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding period.

Basis of accounting

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

Basis of consolidation

The group financial statements consolidate the accounts of DX Group Limited and all of its subsidiary undertakings ('subsidiaries') drawn up to 30 June each year. The results of subsidiaries acquired or sold are consolidated for the years from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the directors' report on pages 2 to 7. The directors' report describes the financial position of the group; its cash flows, liquidity position and borrowing facilities; the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

The current economic conditions create uncertainty over the level of demand for the group's services.

As explained in the directors' report on pages 8 and 9, the company implemented a capital and debt restructuring with its controlling party and its lenders on 19 July 2010. The current economic conditions create uncertainty, particularly over the level of demand for the group's services. The group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that it has no requirement for any short term borrowing facilities, and that there is headroom against the group's banking covenants.

After careful consideration of the outcome of the capital and debt restructuring, the directors have a reasonable expectation that the company and the group will have adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern bases in preparing the annual report and accounts.

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiaries and businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and amortised on a straight line basis over the shorter of its estimated economic useful life and 20 years. Provision is made for any impairment.

Negative goodwill is similarly included in the balance sheet and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or disposal. The period estimated by the directors is 7.4 years. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the period expected to benefit.

Investments

Shares in, and loans to, subsidiaries are valued at cost less provision for impairment.

**Notes to the financial statements
for the year ended 30 June 2009**

**1 Significant accounting policies
(continued)**

Tangible fixed assets

Tangible fixed assets are shown at cost less accumulated depreciation and any provision for impairment. Depreciation of fixed assets is provided on a straight line basis calculated at rates to write off the cost less estimated residual value of each asset over the term of its expected useful life.

The following rates are used:	% per annum
Land and buildings:	
Land	Nil
Freehold buildings	2 - 2.5
Short leasehold properties	4 - 20
Plant, machinery and other equipment	10 - 25

Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively 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 tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in years different from those in which they are included in the financial information. 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.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the associate.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are capitalised as tangible fixed assets and depreciated over the shorter of the lease terms and their useful lives. The capital elements of future lease obligations are recorded as liabilities, while the interest elements are charged to the profit and loss account over the year of the leases to produce a constant rate of charge on the balance of capital repayments outstanding.

Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the year of the lease.

Pension costs

The group operates a number of defined contribution pension schemes. The amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either creditors or debtors in the balance sheet.

Foreign currencies

The assets and liabilities of foreign companies denominated in foreign currencies are translated into sterling at the rates ruling at the year end. Profits and losses of foreign companies are translated into sterling at average rates of exchange for the year.

**Notes to the financial statements
for the year ended 30 June 2009****1 Significant accounting policies
(continued)**

The differences arising from the retranslation of the opening balance sheets and retained earnings of foreign companies at the year end rate are dealt with through reserves. Other translation differences are dealt with in the profit and loss account.

Financial liabilities and equity

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

Borrowings

Interest-bearing borrowings are initially stated at the amount of the net proceeds received after deduction of direct issue costs. Finance charges other than borrowing costs, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Finance costs are recognised in the profit and loss account over the term of the relevant instruments at a constant rate on the carrying amount.

Equity instruments

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

Turnover

Turnover represents the value of sales, apportioned over the year to which it relates after excluding trade discounts, value added tax and similar sales related taxes.

Document Exchange subscription income invoiced in advance is deferred and recognised as turnover over the year in which the related service is provided. Deferred subscription income is included in the balance sheet as deferred income within creditors: amounts falling due within one year.

All other turnover is recognised as the service to which it relates is rendered.

2 Segmental reporting

The directors consider there to be only one class of business, being the provision of mail and courier logistics services, and one material geographical segment, being the United Kingdom and the Republic of Ireland.

The analysis of turnover by product group is as follows:

	2009 £m	2008 £m
DX Exchange	75.4	79.5
DX Courier	40.5	43.7
DX Mail	8.6	7.4
DX Secure	37.2	43.0
	<hr/>	<hr/>
	161.7	173.6
DX Business Direct	8.7	-
	<hr/>	<hr/>
	170.4	173.6

Turnover includes £8.7 million in respect of operations acquired during the year.

**Notes to the financial statements
for the year ended 30 June 2009**
3 Operating costs

	2009 £m	2008 £m
Other external charges – excluding exceptional items	90.2	84.8
Other external charges – exceptional items *	0.1	3.2
Other external charges – total	90.3	88.0
Staff costs – excluding exceptional items	39.2	36.6
Staff costs – exceptional items *	-	0.6
Staff costs – total (see note 5)	39.2	37.2
Depreciation and other amounts written off tangible fixed assets (owned assets) – excluding exceptional items	4.4	4.7
Depreciation and other amounts written off tangible fixed assets (owned assets) – exceptional items *	1.1	-
Depreciation and other amounts written off tangible fixed assets (owned assets) – total	5.5	4.7
Depreciation and other amounts written off tangible fixed assets (leased assets)	0.2	0.3
Loss on sale of tangible fixed assets	0.1	-
Hire of plant – other rentals	1.7	1.3
Other operating lease rentals (including land and buildings)	5.4	4.8
Other operating income	(0.8)	-
Goodwill amortisation	24.1	24.1
Exceptional impairment charges *	236.9	-
Operating costs – excluding exceptional items and goodwill amortisation	140.4	132.5
Operating costs – exceptional items and goodwill amortisation	262.2	27.9
Total operating costs	402.6	160.4

* an analysis of exceptional items is given in note 6.

Operating costs includes £9.8 million in respect of operations acquired during the year.

Amounts charged by the group's auditors are as follows:

	2009 £000	2008 £000
Fees payable to the company's auditors for the audit of the company's annual accounts	15	15
<i>Fees payable to the company's auditors and their associates for other services to the group:</i>		
The audit of the company's subsidiaries pursuant to legislation	85	75
Total audit fees	100	90
Other services pursuant to legislation:		
- tax services	42	30
- due diligence services	11	-
Total non-audit fees	53	30
Total fees	153	120

Fees payable to Deloitte LLP and their associates for non-audit services to the company are not required to be disclosed separately because the consolidated financial statements are required to disclose such fees on a consolidated basis.

**Notes to the financial statements
for the year ended 30 June 2009****4 Directors' emoluments****Total remuneration:**

	2009 £000	2008 £000
Emoluments	909	1,262
Sums paid to third parties in respect of directors' services	54	75
	963	1,337

No director accrued benefits under money purchase schemes in the current or previous periods.

Highest paid director:

	2009 £000	2008 £000
Emoluments	265	345

5 Staff costs (including executive directors)

	2009 £m	2008 £m
Wages and salaries	35.6	33.9
Social security costs	3.3	3.0
Other pension costs	0.3	0.3
	39.2	37.2

Average number of persons employed (including executive directors):

	2009 No	2008 No
Sales and marketing	141	128
Network	1,446	1,413
Management and administration	170	146
	1,757	1,687

**Notes to the financial statements
for the year ended 30 June 2009****6 Exceptional items**

	2009 £m	2008 £m
Impairment charges:		
Intangible fixed assets	235.0	-
Tangible fixed assets	1.5	-
Own shares	0.4	-
	<u>236.9</u>	<u>-</u>
Costs of restructuring the cost bases of the individual businesses:		
Redundancy and associated costs	-	0.2
Other	1.2	0.2
	<u>1.2</u>	<u>0.4</u>
Costs of integrating the businesses:		
Consultancy costs	-	1.5
Property integration costs	-	0.9
Other	-	0.5
	<u>-</u>	<u>2.9</u>
Transaction costs:		
Corporate finance and due diligence fees	-	0.5
	<u>-</u>	<u>0.5</u>
Total exceptional items	<u>238.1</u>	<u>3.8</u>

7 Finance charges (net)

	2009 £m	2008 £m
Interest payable and similar charges:		
<i>Third party:</i>		
Bank loans and overdrafts not wholly repayable within five years	21.5	24.7
Other loans wholly repayable within five years	0.1	0.2
Other interest	0.3	0.5
Amortisation of financing costs	1.1	1.1
	<u>23.0</u>	<u>26.5</u>
<i>Shareholder related:</i>		
Other loans not wholly repayable within five years	10.0	8.7
	<u>33.0</u>	<u>35.2</u>
Non equity finance costs payable:		
<i>Shareholder related:</i>		
11% preference share dividends	21.0	19.0
	<u>54.0</u>	<u>54.2</u>
Total interest payable and similar charges	<u>54.0</u>	<u>54.2</u>

Notes to the financial statements
for the year ended 30 June 2009

7 Finance charges (net)
(continued)

	2009 £m	2008 £m
Interest receivable and similar income:		
<i>Third party:</i>		
Bank deposits	(0.3)	(0.8)
Net interest payable	53.7	53.4
Third party	22.7	25.7
Shareholder related	31.0	27.7
Net interest payable	53.7	53.4

8 Tax on loss on ordinary activities

(a) Analysis of charge in year

	2009 £m	2008 £m
Current tax:		
United Kingdom corporation tax	(0.7)	0.6
Overseas taxation	(0.6)	(0.5)
Total current tax	(1.3)	0.1
Deferred tax	-	0.3
Tax on loss on ordinary activities	(1.3)	0.4

The exceptional items gave rise to a tax credit included above of £nil (2008: £1.0 million).

(b) Factors affecting the tax charge/(credit) for year

The tax assessed for the year is higher than the standard rate of corporation tax in the UK of 28% (2008: 29.5%). The differences are explained below:

	2009 £m	2008 £m
Loss on ordinary activities before tax	(285.9)	(40.2)
Loss on ordinary activities before tax at the standard rate of UK corporation tax of 28% (2008: 29.5%)	(80.1)	(11.8)
Factors affecting charge for year:		
Impairment charges	66.3	-
Goodwill amortisation	6.7	7.1
Preference share dividends	5.9	5.6
Interest	2.4	0.1
Depreciation and other amounts written off fixed assets for year in excess of capital allowances	0.8	0.9
Overseas tax charged at lower rates than UK standard rates	(0.6)	(0.5)
Adjustments in respect of prior period	(0.4)	(1.4)
Other	0.3	(0.1)
Total actual amount of current tax	1.3	(0.1)

**Notes to the financial statements
for the year ended 30 June 2009**

9 Loss attributable to the company

The loss on ordinary activities after taxation includes a loss of £21.4 million (2008: £19.3 million) attributable to the company. As permitted under Section 408 of the Companies Act 2006, the company has not published a separate profit and loss account.

10 Intangible fixed assets

	Positive goodwill £m	Negative goodwill £m	Total £m
Cost:			
At 1 July 2008	482.0	-	482.0
Additions	-	(0.3)	(0.3)
At 30 June 2009	482.0	(0.3)	481.7
Amortisation			
At 1 July 2008	44.2	-	44.2
Charge for the year	24.1	-	24.1
Impairment charge for the year	235.0	-	235.0
At 30 June 2009	303.3	-	303.3
Net book value: At 30 June 2009	178.7	(0.3)	178.4
At 30 June 2008	437.8	-	437.8

The negative goodwill acquired in the year relates to the acquisition by DX Business Direct Limited of the In-Night and PX Worldwide Licensing operations of Business Direct Limited, and arises from the difference between the estimated purchase price (£1.8 million) and the net assets acquired (£2.1 million).

The negative goodwill is being written back over a period of 7.4 years which is equal to the period over which the related non-monetary assets of the acquired business are being depreciated.

The following table sets out the book values of the identifiable assets at the time of the acquisition and their provisional fair value:

	Book value £m	Adjustments £m	Provisional fair value £m
Tangible fixed assets	2.5	(0.4)	2.1
Net assets	2.5	(0.4)	2.1
Goodwill			(0.3)
			1.8
Discharged by:			
Payment to Administrator			0.5
'Goodwill payments' to suppliers			1.2
Costs incurred			0.1
Cost of acquisition			1.8

The book value of tangible fixed assets acquired was written down to their estimated market values at the date of acquisition.

**Notes to the financial statements
for the year ended 30 June 2009**

**10 Intangible fixed assets
(continued)**

The net cash flow effect of the acquisition was as follows:

	£m
Payments for the purchase of the business	0.5
'Goodwill payments' to suppliers and other costs	1.2
Cash outflow effect of the acquisition	1.7

11 Tangible fixed assets

	Freehold land and buildings £m	Short leasehold land and buildings £m	Plant and equipment £m	Total £m
Cost:				
At 1 July 2008	2.2	9.0	43.7	54.9
Acquisition of business	-	-	2.1	2.1
Additions	-	1.2	5.0	6.2
Disposals	-	(0.5)	(4.9)	(5.4)
Assets written off	-	-	(1.1)	(1.1)
At 30 June 2009	2.2	9.7	44.8	56.7
Depreciation:				
At 1 July 2008	0.6	6.4	37.1	44.1
Charge for the year	-	1.0	3.6	4.6
Impairment charge for the year	-	0.3	1.2	1.5
Disposals	-	(0.4)	(4.9)	(5.3)
At 30 June 2009	0.6	7.3	37.0	44.9
Net book value:				
At 30 June 2009	1.6	2.4	7.8	11.8
At 30 June 2008	1.6	2.6	6.6	10.8

The cost of land not being depreciated is £0.7 million (2008: £0.7 million).

The net book value of plant and equipment includes £0.1 million (2008: £0.2 million) in respect of leased assets.

12 Investments

	Shares in group companies £m	Loans to group companies £m	Total £m
Cost:			
At 1 July 2008 and 30 June 2009	162.4	1.6	164.0
Provisions:			
At 1 July 2008 and 30 June 2009	-	-	-
Net book value:			
At 30 June 2009	162.4	1.6	164.0
At 30 June 2008	162.4	1.6	164.0

**Notes to the financial statements
for the year ended 30 June 2009****12 Investments
(continued)**

At 30 June 2009 DX Group Limited owned, directly or indirectly, 100% of each class of issued shares of the following companies:

	Principal activity
Directly owned:	
DX Finance Limited	Intermediate holding company
DX (EBT Trustees) Limited	Dormant
Indirectly owned:	
DX Network Services Limited	Mail services
Secure Mail Services Limited	Mail services
DX Network Services Ireland Limited (registered and operates in the Republic of Ireland)	Mail services
DX Business Direct Limited	Courier logistics
DX Holdings Limited	Intermediate holding company
DX Secure Mail Limited	Intermediate holding company
DX Services Limited	Intermediate holding company
DX Electronic Services Limited	Dormant
Special Mail Services Limited	Dormant

The above companies are registered and operate in England and Wales unless otherwise stated.

The investor loan notes detailed in note 16 are listed on the Channel Islands Stock Exchange in the name of DX Finance Limited.

13 Acquisition of subsidiary undertakings***Acquisition of Secure Mail Services Limited***

On 1 September 2006 DX Secure Mail Limited, a wholly owned subsidiary of the company, purchased the whole of the issued share capital of Secure Mail Services Limited for a total consideration of £41.4 million (2008: £41.4 million).

Deferred consideration of £10.0 million was payable in respect of the acquisition of Secure Mail Services Limited, of which £9.5 million has been settled to date. The remaining £0.5 million of deferred consideration has been accrued within Creditors: amounts falling due within one year (2008: £4.0 million).

The net cash flow effect of the acquisition was as follows:

	2009 £m	2008 £m
Payments for the purchase of shares	0.5	3.6
Repayment of guaranteed loan notes issued in respect of acquisition	2.9	7.2
Costs of acquisition settled in the year	-	0.2
Cash outflow effect of the acquisition	3.4	11.0

Acquisition of Challenger Security Services (Admin) Limited

On 14 December 2007 Secure Mail Services Limited, a wholly owned subsidiary of the company, purchased the whole of the issued share capital of Challenger Security Services (Admin) Limited for a total estimated consideration of £0.9 million. Goodwill arising on the acquisition has been taken to intangible fixed assets and is being written off over the directors' estimate of useful life, being 20 years.

**Notes to the financial statements
for the year ended 30 June 2009**

**13 Acquisition of subsidiary undertakings
(continued)**

Challenger Security Services (Admin) Limited has been struck off the Register of Companies following the transfer of its trade into its immediate parent undertaking, Secure Mail Services Limited.

The following table sets out the book values of the identifiable assets and liabilities of Challenger Security Services (Admin) Limited acquired and their provisional fair value to the group:

	Book value £000	Adjustments £000	Provisional fair value to group £000
Current assets			
Debtors	89	-	89
Cash	9	-	9
Total assets	98	-	98
Creditors			
Creditors	95	-	95
Taxation	2	-	2
Total liabilities	97	-	97
Net assets	1	-	1
Goodwill			905
			906
Discharged by:			
Cash			410
Deferred consideration			465
Costs incurred			31
Cost of acquisition			906

Deferred consideration is payable dependent on the revenue generated from the activities acquired in the three years ending 14 December 2010. This was estimated to amount to £465,000. £175,000 was paid in the year, and the balance has been included in Creditors: amounts falling due within one year and Creditors: amounts falling due after more than one year according to the amounts estimated to be payable in each year.

The net cash flow effect of the acquisition was as follows:

	2009 £000	2008 £000
Payments for the purchase of shares	175	410
Costs of acquisition settled in the year	-	31
Cash outflow on purchase of subsidiary	175	441
Cash at bank and in hand acquired	-	(9)
Cash outflow effect of the acquisition	175	432

**Notes to the financial statements
for the year ended 30 June 2009**

**13 Acquisition of subsidiary undertakings
(continued)**

Challenger Security Services (Admin) Limited earned a profit after taxation of £425 in the year ended 30 September 2007 (2006: £4,143). The summarised profit and loss account and statement of total recognised gains and losses for the period from 1 October to 14 December 2007, shown on the basis of the accounting policies of Challenger Security Services (Admin) Limited prior to the acquisition, are as follows:

	£000
Turnover	263
Operating costs	(254)
Profit on ordinary activities before taxation	9
Tax on profit on ordinary activities	(2)
Profit for the financial year	7

Acquisition of DX Business Direct Limited

On 1 September 2008 the group acquired the In-Night and PX Worldwide Licensing operations of Business Direct Limited, a wholly owned subsidiary of Business Direct Group plc. The acquisition was effected by the creation of a newly formed shell company, DX Business Direct Limited, which company acquired the trade and fixed assets of the operations from the Administrator of Business Direct Limited, funded by a loan from its immediate parent undertaking. Further details of the acquisition are provided in note 10.

14 Debtors

	Group		Company	
	2009	2008	2009	2008
	£m	£m	£m	£m
Trade debtors	24.4	26.1	-	-
Amounts owed by subsidiary undertakings	-	-	2.2	0.6
Corporation tax recoverable from group undertakings	-	-	1.1	0.9
Other debtors	0.5	0.5	0.3	0.4
Prepayments and accrued income	8.4	7.8	-	-
	33.3	34.4	3.6	1.9

15 Creditors: amounts falling due within one year

	Group		Company	
	2009	2008	2009	2008
	£m	£m	£m	£m
Bank loans and overdrafts	6.0	6.4	-	-
Obligations under finance leases	0.1	0.2	-	-
Guaranteed loan notes	0.6	0.4	-	-
Trade creditors	4.4	3.2	-	-
Amounts owed to subsidiary undertakings	-	-	2.7	4.3
Corporation tax	4.1	3.5	-	-
Other taxes and social security costs	3.3	4.4	0.2	0.4
Other creditors	1.3	5.0	-	-
Accruals	10.8	12.4	0.3	0.2
Deferred income	26.4	32.9	-	-
	57.0	68.4	3.2	4.9

**Notes to the financial statements
for the year ended 30 June 2009**

**16 Creditors: amounts falling due after more than one year
(continued)**

The bank loans at 30 June 2009 are the amount outstanding under a £225 million senior facilities agreement, expiring on 31 December 2015, and a £57.2 million mezzanine facility agreement, expiring on 30 June 2016. The carrying amount of the bank loans comprises:

	2009 £m	2008 £m
Senior facility	180.5	184.5
Mezzanine facility	57.2	57.2
Accrued interest	6.8	4.3
	<u>244.5</u>	<u>246.0</u>
Loan issue costs	(5.8)	(6.9)
	<u>238.7</u>	<u>239.1</u>

£26.4 million (2008: £30.9 million) of the senior facility was repayable in semi-annual instalments over the period from 30 June 2008 to 30 June 2013. The balance of the senior facilities was repayable between 30 June 2014 and 31 December 2015. The amount outstanding under the mezzanine facility, together with accrued interest settled other than in cash, was repayable in full on the expiry date.

The repayment profile and ultimate redemption dates of the senior facilities have been amended subsequent to the year end, further details of which are set out in note 28.

The carrying amount of the investor loan notes comprises:

	2009 £m	2008 £m
15.25% senior subordinated redeemable loan notes 2016	39.8	34.6
15.50% junior subordinated redeemable loan notes 2016	26.7	23.1
	<u>66.5</u>	<u>57.7</u>
Loan issue costs	(0.1)	(0.2)
	<u>66.4</u>	<u>57.5</u>

The senior and the junior loan notes are listed on the Channel Islands Stock Exchange. They are repayable in full on 4 September 2016, together with accrued interest.

The cumulative redeemable preference shares carry an entitlement to dividends at the rate of 11p per share per annum, compounded annually on the anniversary of their issue. The shares, together with accumulated dividends, are redeemable on the earlier of the sale or listing of the company and 1 October 2016. The company has the option to redeem the shares earlier. Note 28 discloses that, subsequent to the year end, the cumulative redeemable preference shares, together with accumulated dividends thereon, have been converted into a new class of deferred ordinary shares which have no rights to income.

The loan from the subsidiary undertaking bears interest at the blended interest rate payable by the group on its bank borrowings. The interest rate on each facility is LIBOR plus a margin which ranges from 2.25% to 8.25%, depending on the facility. The loan is repayable no earlier than 31 December 2015.

**Notes to the financial statements
for the year ended 30 June 2009**
17 Financial instruments

Short term debtors and creditors have been excluded from the following disclosures.

(a) Interest rate risk profile of financial liabilities

The interest rate risk profile of the group's financial liabilities at 30 June 2009, after taking account of the interest rate swaps used to manage the interest profile, was:

	Floating rate £m	Fixed rate £m	Total £m
At 30 June 2009:			
Sterling debt	131.7	194.3	326.0
At 30 June 2008	65.1	252.8	317.9

The effect of the group's interest rate swaps is to classify £118.7 million (2008: £187.3 million) of borrowings in the above table as fixed rate. The balance of the fixed rate borrowings comprise the investor loan notes, together with interest thereon, the guaranteed loan notes and finance leases.

(b) Maturity of financial liabilities

The maturity profile of the group's financial liabilities at 30 June 2009 was as follows:

	Bank loans, together with accrued interest £m	Investor loan notes, together with accrued interest £m	Finance leases £m	Guaranteed loan notes £m	Total £m
Between one and two years	6.0	-	-	-	6.0
Between two and five years	84.5	-	-	-	84.5
After five years	154.0	74.8	-	-	228.8
Total payable after more than one year	244.5	74.8	-	-	319.3
On demand or within one year	6.0	-	0.1	0.6	6.7
Total	250.5	74.8	0.1	0.6	326.0

Subsequent to the end of the year, the terms of the bank facilities were renegotiated, with the result that £64.8 million of debt classified as falling due between two and five years would have been classified as falling due after more than five years had the renegotiation been completed at 30 June 2009. Furthermore, the amount outstanding under the mezzanine facility of £64.0 million, including accrued interest, would have been classified as owing to related parties, not as bank loans. In addition, the £158.0 million of 11% cumulative redeemable preference shares, together with accrued dividends, has been converted into a new class of deferred ordinary shares with no rights to income.

**Notes to the financial statements
for the year ended 30 June 2009**

**17 Financial instruments
(continued)**

The maturity profile of the group's financial liabilities at 30 June 2008 was as follows:

	Bank loans, together with accrued interest £m	Investor loan notes, together with accrued interest £m	Finance leases £m	Guaranteed loan notes £m	Total £m
Between one and two years	5.8	-	0.1	-	5.9
Between two and five years	18.7	-	-	-	18.7
After five years	221.5	64.9	-	-	286.4
Total payable after more than one year	246.0	64.9	0.1	-	311.0
On demand or within one year	6.4	-	0.2	0.4	7.0
Total	252.4	64.9	0.3	0.4	318.0

(c) Fair values of financial assets and liabilities

The group uses derivative financial instruments to reduce its exposure to interest rate movements, and does not hold or issue derivative financial instruments for speculative purposes. Derivative financial instruments are not included at fair value.

The fair value of the group's interest rate derivatives at 30 June 2009, calculated using market rates, was a liability of £1.2 million (2008: asset of £1.6 million). The interest rate derivatives expired on 30 September 2009. The swaps were not replaced at that time, but new arrangements will be entered into under the restructuring of the group's finances.

(d) Currency exposure

The currency profile of the group's financial assets and liabilities, other than short term items such as trade and other debtors and trade and other creditors, was:

	2009 £m	2008 £m
Financial assets:		
Sterling	2.7	11.0
Euro	0.6	0.8
	3.3	11.8
Comprising:		
Cash at bank	3.3	11.8

**Notes to the financial statements
for the year ended 30 June 2009**

**17 Financial instruments
(continued)**

	2009 £m	2008 £m
Financial liabilities:		
Sterling	(317.6)	(310.6)
Comprising:		
Bank loans	(250.4)	(252.4)
Investor loan notes	(66.5)	(57.5)
Guaranteed loan notes	(0.6)	(0.4)
Finance leases	(0.1)	(0.3)
	<u>(317.6)</u>	<u>(310.6)</u>
Net financial liabilities	<u>(314.3)</u>	<u>(298.8)</u>

As the group is predominantly UK based, it does not have any material currency exposures.

(e) Hedges

As explained in the directors' report on page 7, the group's policy is to hedge its interest rate risk, but not its foreign currency risk. The group uses interest rate swaps to hedge its interest rate risk.

At 30 June 2009, the group had put in place interest rate swaps in respect of £118.7 million (2008: £187.3 million) of bank borrowings. The loss on these instruments at 30 June 2009 was £1.2 million (2008: gain of £1.6 million).

18 Provisions

	Deferred taxation £m	Integration costs	Other provisions £m	Total £m
At 1 July 2008	-	0.4	0.7	1.1
Utilised	-	(0.1)	(0.1)	(0.2)
Charged to profit and loss account	0.1	-	-	0.1
At 30 June 2009	<u>0.1</u>	<u>0.3</u>	<u>0.6</u>	<u>1.0</u>

Deferred tax is provided at the expected tax rate of 28% as follows:

	2009 £m	2008 £m
Accelerated capital allowances	0.1	0.2
Other timing differences	-	(0.2)
	<u>0.1</u>	<u>-</u>

At the balance sheet date, the group has unused tax losses of £14.0 million (2008: £1.1 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these losses due to the unpredictability of future profit streams in the companies concerned.

Integration costs and other provisions are expected to be utilised over the period to January 2026.

**Notes to the financial statements
for the year ended 30 June 2009**

19 Share capital

Authorised:	2009		2008	
	No (000)	£000	No (000)	£000
Equity:				
A ordinary shares of 10p each	5,250	525	5,250	525
B ordinary shares of 10p each	1,000	100	1,000	100
Total equity	6,250	625	6,250	625
Non equity:				
11% cumulative redeemable preference shares of £1 each	158,003	158,003	158,003	158,003
	164,253	158,628	164,253	158,628
 Allotted, called up and fully paid:				
	No (000)	2009 £000	No (000)	2008 £000
Equity:				
A ordinary shares of 10p each	5,250	525	5,250	525
B ordinary shares of 10p each	1,000	100	1,000	100
Total equity	6,250	625	6,250	625
Non equity:				
11% cumulative redeemable preference shares of 1 each	158,003	158,003	158,003	158,003
	164,253	158,628	164,253	158,628

The non equity shares are presented as a liability (see note 16) and accordingly are excluded from called up share capital in the balance sheet.

The A and B ordinary shares rank pari passu in the event of a winding up and carry no right to fixed income. The A and B ordinary shares carry equal voting rights and the preference shares carry no voting rights.

Subsequent to the end of the year, the £158.0 million of 11% cumulative redeemable preference shares, together with accrued dividends, has been converted into a new class of deferred ordinary shares with no rights to income.

**Notes to the financial statements
for the year ended 30 June 2009**

20 Shareholders' funds

	Equity share capital £m	Share premium £m	Own shares £m	Profit and loss account £m	Total £m
Group:					
At 30 June 2007	0.6	5.6	-	(36.6)	(30.4)
Own shares purchased	-	-	(0.4)	-	(0.4)
Loss for the financial year	-	-	-	(39.8)	(39.8)
Exchange adjustments	-	-	-	0.3	0.3
At 30 June 2008	0.6	5.6	(0.4)	(76.1)	(70.3)
Own shares purchased	-	-	(0.1)	-	(0.1)
Shares issued to directors as settlement for bonus obligations	-	-	0.1	-	0.1
Impairment charges	-	-	0.4	-	0.4
Loss for the financial year	-	-	-	(287.2)	(287.2)
At 30 June 2009	0.6	5.6	-	(363.3)	(357.1)
Company:					
At 30 June 2007	0.6	5.6	-	(17.0)	(10.8)
Loss for the financial year	-	-	-	(19.3)	(19.3)
At 30 June 2008	0.6	5.6	-	(36.3)	(30.1)
Loss for the financial year	-	-	-	(21.4)	(21.4)
At 30 June 2009	0.6	5.6	-	(57.7)	(51.5)

The own shares reserve arose in connection with the group's Employee Benefit Trust, a discretionary trust established to facilitate the operation of the group's long-term incentive scheme for senior management. The amount of the reserve represents the deduction in arriving at shareholders' funds for the consideration paid for the company's shares, purchased by the trust from directors and senior management members on leaving the group, which had not vested unconditionally in employees at the balance sheet date.

The directors have reviewed the carrying value of the amount paid for the company's shares, and concluded that an impairment charge is required as a result of the restructuring of the group's finances.

21 Reconciliation of operating profit to operating cash flows

	2009 £m	2008 £m
Operating (loss)/profit	(232.2)	13.2
Depreciation and other amounts written off tangible fixed assets	5.8	5.0
Goodwill amortisation	24.1	24.1
Impairment charges in respect of goodwill, tangible fixed assets and own shares	236.9	-
Decrease/(increase) in debtors	1.1	(4.2)
(Decrease)/increase in creditors	(7.8)	0.6
(Decrease)/increase in other provisions	(0.1)	0.3
Net cash inflow from operating activities	27.8	39.0

**Notes to the financial statements
for the year ended 30 June 2009**

22 Analysis of net debt and reconciliation of net cash flow to movement in net debt

	Cash at bank and in hand £m	Debt due within one year £m	Debt due after one year £m	Finance leases £m	Total net debt £m
At 1 July 2008	(11.8)	6.8	495.2	0.3	490.5
Cash flow	8.6	(1.1)	(4.5)	(0.2)	2.8
Non cash changes	(0.1)	0.9	35.1	-	35.9
At 30 June 2009	(3.3)	6.6	525.8	0.1	529.2

The non cash changes relate to accrued preference dividends, accrued investor loan notes and non-current bank interest, amortisation of finance costs, loan notes issued as part of the consideration for the acquisition of Secure Mail Services Limited and exchange adjustments.

23 Significant non-cash transactions

A proportion of the consideration for the acquisition of Secure Mail Services Limited during the current and previous years comprised cash and loan notes. Further details are given in note 13.

24 Financial commitments

	Group	
	2009 £m	2008 £m
Capital expenditure:		
Contracted but not provided for	0.3	1.5
Annual commitments under operating leases are analysed as follows:		
Land and buildings – leases which expire:		
Within one year	0.4	0.3
Between two and five years	1.9	1.7
After five years	1.4	1.7
	3.7	3.7
Other – leases which expire:		
Within one year	-	0.1
Between two and five years	0.5	0.3
	0.5	0.4

Leases of land and buildings are typically subject to rent reviews at specified intervals and provide for the lessees to pay all insurance, maintenance and repair costs.

25 Contingencies

The group has entered into a bank guarantee facility in respect of property leases amounting to £0.1 million (2008: £1.0 million).

The company is party to a continuing guarantee and indemnity in respect of the senior and mezzanine facilities described in note 16.

No provisions are required or have been made in respect of these contingencies since, in the opinion of the directors, they are not expected to result in financial loss for the group.

**Notes to the financial statements
for the year ended 30 June 2009**

26 Pension arrangements

The group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are in managed funds and are therefore held separately from the assets of the group.

The total cost charged to income of £0.3 million (2008: £0.3 million) represents contributions payable to these schemes by the group at rates specified in the rules of the schemes.

27 Related party transactions

During the year, amounts totalling £46,729 (2008: £35,843) were paid to David Mitchell, on an arms length basis, in respect of consultancy services.

James Greenbury received the following amounts in respect of his share of the deferred consideration for the purchase of Secure Mail Services Limited referred to in note 13:

- £0.3m in respect of guaranteed unsecured redeemable loan notes 2010 issued in the previous year but redeemed in the current year;
- £0.6 million guaranteed unsecured redeemable loan notes 2010, all of which were redeemed during the year;
- £0.3 million guaranteed unsecured redeemable loan notes 2011; and
- £0.1m cash.

Amounts paid to Candover Services Limited in respect of directors' services are disclosed in note 4 as sums paid to third parties.

28 Subsequent events

On 19 July 2010 the group implemented a capital and debt restructuring with its controlling party and its lenders, the principal terms of which are:

- a new group corporate organisation structure has been implemented. DX Group Limited remains as the UK holding company but all of its shares are now owned by DX Group Holdings (Cayman) No 1 Limited, a company registered in the Cayman Islands but resident in the UK for tax purposes. The company's controlling party remains unchanged, being funds managed by Candover Partners Limited;
- the final maturity date of the Term Loan A facility ('TLA') (£26.4 million as at 30 June 2009) has been extended from 30 June 2013 to 31 December 2014;
- the final maturity date of the Term Loan B facility (TLB) (£70.0 million as at 30 June 2009) has been extended from 30 June 2014 to 30 June 2016;
- the final maturity of the Term Loan C facility ('TLC') (£70.0 million as at 30 June 2009) has been extended from 30 June 2015 to 1 August 2016;
- all existing cash pay interest margins of the TLA, TLB and TLC remain unchanged. In addition, a further interest charge, payable on final repayment of the respective facilities, shall accrue on TLA, TLB and TLC at the rate of 1.5% per annum;
- the final maturity date of the Term Loan D facility ('TLD') (£20.0 million as at 30 June 2009) has been extended from 31 December 2015 to 1 August 2017, and the interest rate thereon is reduced from LIBOR plus 5.25% to the lower of LIBOR and 1.5% per annum;

**Notes to the financial statements
for the year ended 30 June 2009**

**28 Subsequent events
(continued)**

- the £64.0 million of mezzanine principal and accrued interest owed by the group as at 30 June 2009 has been acquired by a partnership between the company's controlling party, the former mezzanine lenders and the group's senior management team and consequently will cease to be classified as bank loans;
- the existing cash pay interest margin on the mezzanine facility of LIBOR plus 4.25% has been converted to an accrued interest margin and added to the existing accrued margin of 4%, payable on final maturity of the facility;
- a new set of financial covenants has been agreed with the group's lenders;
- the group is required to enter into interest rate hedging arrangements in respect of 67% of the group's TLA, TLB and TLC facilities for a three year period;
- the company's controlling party has invested £15.0 million by means of a zero coupon subordinated loan;
- the 11% cumulative redeemable preference shares and accrued dividends (totalling £213.3 million as at 30 June 2009) have been converted into a new class of deferred ordinary shares with no rights to income; and
- costs of approximately £7.5 million have been incurred by the group in effecting this restructuring, most of which will be charged against profits as an exceptional item in the financial statements for the year ending 30 June 2010.

As a result of the refinancing:

- the combined effect of the extensions to the TLA, TLB, TLC and TLD facilities is to reclassify £64.8 million of debt falling due for payment within two to five years as at 30 June 2009 to falling due for payment after more than five years at that date;
- total third party debt due after more than one year at 30 June 2009 would have been reduced by £62.6 million to £176.2 million;
- total shareholder related loans would have reduced by £134.7 million to £152.4 million;
- the ratio of third party creditors falling due after more than one year to operating profit before depreciation, exceptional items and goodwill amortisation would have reduced from 6.9 to 5.1; and
- future cash interest payments will be reduced.

29 Controlling party

In the opinion of the directors, the company's controlling party at 30 June 2009 was funds managed by Candover Partners Limited.

DX Group Limited

Appendix – unaudited pro forma balance sheets as at 30 June 2009

	Group £m	Company £m
Fixed assets:		
Goodwill	178.7	-
Negative goodwill	(0.3)	-
Intangible fixed assets	178.4	-
Tangible fixed assets	11.8	-
Investments	-	164.0
	190.2	164.0
Current assets:		
Debtors	33.3	3.6
Cash at bank and in hand	18.3	0.1
	51.6	3.7
Creditors: amounts falling due within one year	(57.0)	(3.2)
Net current (liabilities)/assets	(5.4)	0.5
Total assets less current liabilities	184.8	164.5
Creditors: amounts falling due after more than one year:		
Third party	176.2	-
Shareholder related	152.4	3.7
	328.6	3.7
Provisions for liabilities and charges	1.0	-
	329.6	3.7
Capital and reserves:		
Called up share capital	212.9	212.9
Share premium account	5.6	5.6
Profit and loss account	(363.3)	(57.7)
Shareholders' funds	(144.8)	160.8
	184.8	164.5

The unaudited pro forma balance sheets shown above are based on the consolidated and company balance sheets as at 30 June 2009 respectively, adjusted to include the effects of the restructuring of the group's finances as described in note 28 to the financial statements, and are unaudited.