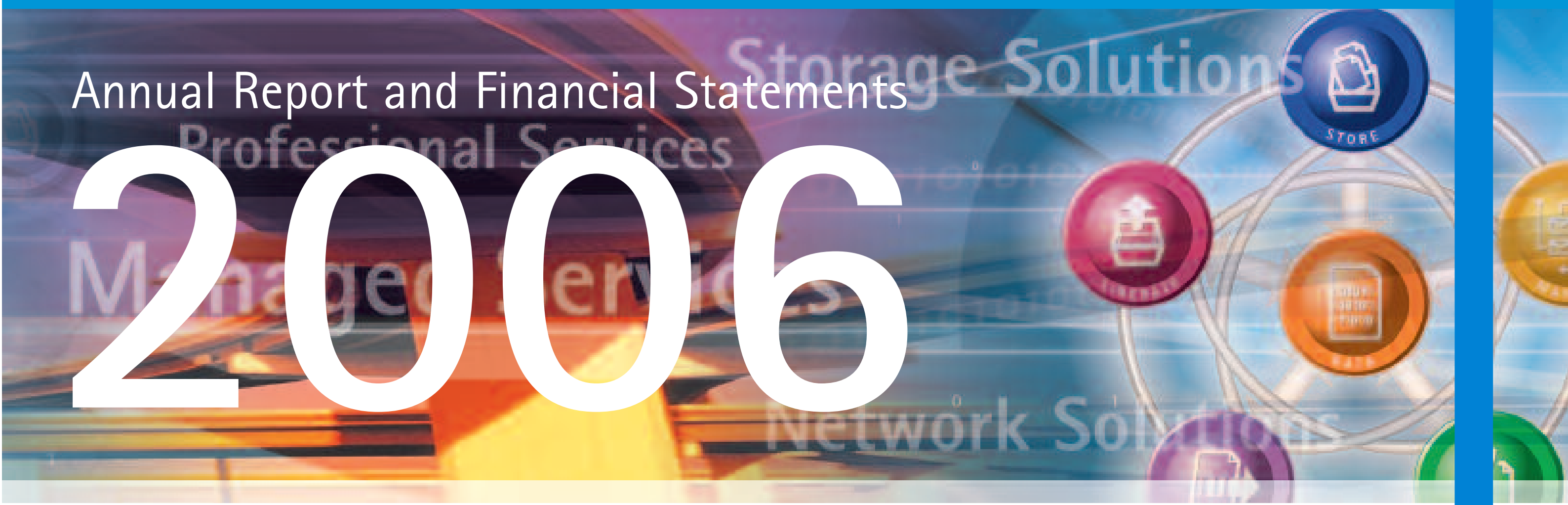
# Annual Report and Financial Statements 2006




Unifying IT infrastructure

InTechnology

# Contents

# Highlights

## Operational performance

**UK Specialist Distribution division:**

- Operating profit recovery in H2, following reorganisation programme

**Managed Services division:**

- Increased turnover and first full year operating profit before amortisation of goodwill and exceptional items
- Creation of new Managed Voice Services business to concentrate on voice IP and related network services

**Continental European distribution business:**

- Disposal on 31 March 2006
- Cash inflow of approximately £19m during the coming financial year resulting from the sale will eliminate much of the Group's debt

## Financial performance

- Total turnover from continuing operations declined to £215.0m (2005: £220.3m)
- Managed Services turnover increased to £25.3m (2005: £22.1m), UK Specialist Distribution reduced to £189.7m (2005: £198.2m)
- Operating profit from continuing operations before amortisation of goodwill and exceptional items increased to £6.0m (2005: £4.0m)
- H2 operating profit from continuing operations before amortisation of goodwill and exceptional charges increased to £4.8m from £1.2m in H1
- Operating loss from continuing operations for the year of £0.9m (2005: £0.4m) due to exceptional costs of £2.4m (2005: £nil) incurred to reduce operating cost base
- The pre-tax loss from discontinued European operations accounted for £9.0m (2005: £0.2m profit) of the Group loss of £12.1m (2005: £2.5m loss)
- Cash balances at the year end increased to £12.7m (2005: £10.5m) and net debt reduced to £19.5m (2005: £22.2m)

# Chairman's introduction

The past year has seen some important changes for InTechnology and I am pleased that the Company has ended the year in a strong position for sustained growth and profitability in the future.

The reorganisation programme which we initiated in the first half of the year enabled us to achieve operating profit before amortisation of goodwill and exceptional items in our continuing operations of £6.0m (2005: £4.0m) despite a fall in turnover to £215.0m (2005: £220.3m). Total Group turnover was £284.7m (2005: £283.5m) and the operating loss for the Group after the reorganisation was £6.2m (2005: £0.3m loss).

Our Managed Services Division has shown robust performance with an increase in sales to £25.3m (2005: £22.1m), operating profit before amortisation of goodwill and exceptional items of £1.8m (2005: £2.0m loss), and an expanding range of services. The operating loss for the Division was £1.5m (2005: £4.3m). In order to build on the rapidly-growing market in IP telephony, we have set up a new team to increase sales focus in this area. Other parts of the Division have been re-organised for maximum effectiveness and customer satisfaction. Organisations of all sizes subscribe to these services in order to achieve efficiency gains and mitigate risk in the management of the IT infrastructure which underpins their operations.

Pressure on margins in our UK Specialist Distribution Division has been severe and we therefore implemented a cost control programme in the first half of the year. In the second half of the year we achieved operating profit growth compared with the first half of the year, which we plan to build on in the year ahead.

Our European Specialist Distribution business delivered disappointing results throughout the year and on 31 March 2006 it was sold to Magirus International GmbH. This will allow us to focus management effort in the UK.

The clear objectives for the coming year are to continue to grow our Managed Services business and to focus on key areas of profitability in our UK Specialist Distribution business.

I would like to thank the staff whose loyalty, energy and professional skills have kept pace with the many developments in the Company in the past year and also our partners in all areas of the business.

I look forward to an exciting and successful year ahead.

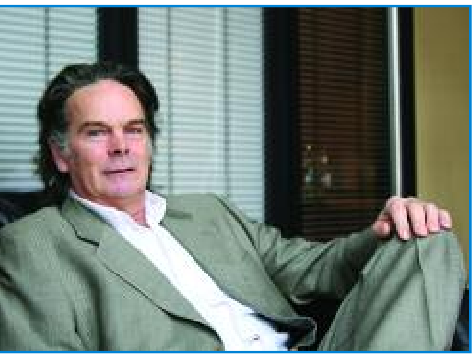
Lord Parkinson

*Chairman*

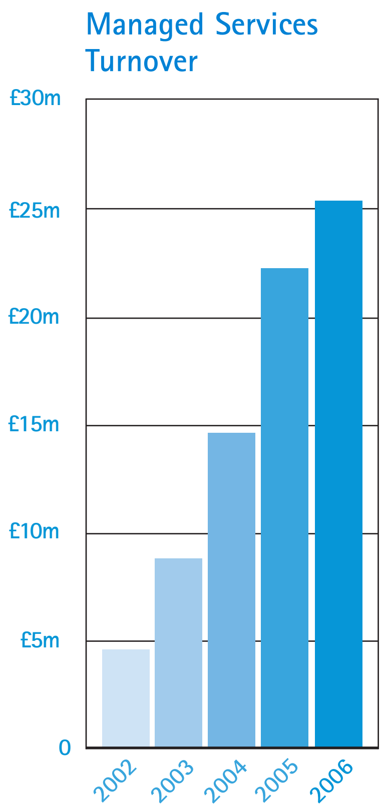
30 June 2006

The Rt. Hon Lord Parkinson

# Chief Executive Officer's report



Peter Wilkinson




## Overview

At the time of our interim results last year we reported that significant efforts would be taken in the second half of the year to focus on the parts of the business that are performing well and to take action to correct those parts of the business where we saw continued margin pressure. These efforts were focused on three areas:

1. To increase the trading profitability of our Managed Services division and to seek new opportunities for growth
2. To improve profitability in our UK Specialist Distribution business
3. To review the strategic options available to us with our European Specialist Distribution business

I am pleased to report that we achieved encouraging results in all three areas, resulting in a strong recovery in our continuing operations in the second half of the year, which reported operating profits before amortisation of goodwill and exceptional charges of £4.8m (first half year of the year: £1.2m). Full year operating loss from continuing operations was £0.9m (2005: £0.4m loss) largely as a result of exceptional costs of £2.4m (2005: £nil) incurred to reduce our operating cost base.

Managed Services' revenues grew 14 per cent to £25.3m (2005: £22.1m) and we have recently embarked on a number of exciting new initiatives in this division.

UK Specialist Distribution revenues declined 4 per cent to £189.7m (2005: £198.2m) but the second half year's performance was encouraging, helped by cost cutting and revenue growth.

The European Distribution companies were sold on 31 March 2006 after growing revenues but incurring operating losses as margin pressures intensified. The resulting cash inflow from the sale in the new fiscal year will substantially reduce Group debt. The pre-tax loss from discontinued European operations accounted for £9.0m (2005: £0.2m profit) of the Group pre-tax loss of £12.1m (2005: £2.5m loss).

We exited the year in good shape, the reward for spending a considerable amount of management time on eliminating losses and driving greater efficiencies. We have established a platform of profitability and we look forward to devoting all our management effort to achieving our plans for future revenue growth and increased profitability.

## Managed Services

We were very pleased this year with the continued growth and regular quarterly operating profit before amortisation of goodwill and exceptional items of the Managed Services Division, a goal which we have been targeting for a number of years. Operating profit before amortisation of goodwill and exceptional charges was £1.8m (2005: £2.0m loss). Operating loss was £1.5m (2005: £4.3m). At 31 March 2006 contracted recurring annualised revenues had increased by 23% to £28.3m (2005: £23.0m).

However, it has become obvious over the past few months that the Division has suffered from our attempts to integrate it alongside a distribution business. This has resulted in the Division having a number of separated departments, causing a lack of efficiency, cohesion and vision.

Over the past 3 months this has been addressed and we have made a number of changes to rectify matters:

- Currently spread across three separate buildings in Harrogate, by the end of June 2006, all the head office Managed Services employees will reside in a single office adjacent to our Northern data centre, also in Harrogate.
- The sales force has been split into a new business team and a customer care team. This will allow us to better focus our efforts on building a new client base whilst also improving the relationship and interaction with our existing customers. We have invested in new CRM and ERP systems to support this important part of the business.
- We have strengthened our position in the IP Voice market by creating a new sales division of highly skilled and experienced telephony experts and have enhanced our portfolio. This focus on an exciting, rapidly-growing market creates significant opportunities for us and we will continue to look at expanding the number of services which we offer.

It is encouraging that the Division now achieves a gross margin value in excess of 80 per cent of that earned by UK Specialist Distribution, and this year we expect it to exceed that earned in Distribution. Moreover, many direct operating costs such as network and data centres are fixed and so higher services revenues will continue to improve operating margins. Our strategic objective of the Division earning operating margin percentages in excess of Distribution will be achieved over the next few years. During the year, we have achieved significant contract wins including Galliford Try PLC, Barker & Stonehouse, London Borough of Bromley, Carl Bro Limited, Denton Wilde Sapte, Devonshire Claims Services Holdings Limited, Colemans CTTS, Carey Jones Architects and The Financial Training Company (Kaplan Inc).

We have had substantial success with our VBAK service and we have launched a pay-as-you-go ILM ('Information Lifecycle Management') service for archiving email and file system data.

This year we will be launching our new Managed Exchange service, which offers medium sized business an enterprise class e-mail service with 99.9% availability.

## Specialist Distribution (UK)

Despite a difficult first half of the year, with gross margins being squeezed by vendors and customers, the second half year's performance was encouraging, helped by cost cutting and revenue growth.

Our relationship with IBM continues to grow from strength to strength and our HP business increased profitability in the second half of the year. We were extremely encouraged by the growth we achieved with NetApp and Symantec (formerly Veritas).

Our security business had an excellent year, despite withdrawing from certain high volume but low margin business.

We have created a new quote and configuration team and a new internal sales team, which have both proven to be extremely successful in the second half of the year and have given us great encouragement for the future.

### Achievements this year:

*Symantec Master Reseller of the Year 2005*

*CA EMEA Storage Partner of the Year 2005*

*Nortel Distributor of the Year 2005*

*World's largest Check Point and Nokia Training Provider 2005*

*Check Point's Most Outstanding Authorised Training Provider in EMEA award 2005*

*Juniper Authorised Training Centre of Excellence 2005*

## Specialist Distribution (Europe)

Our European Distribution businesses were sold on 31 March 2006 and are shown as discontinued operations in the consolidated financial statements.

Turnover increased by 10 per cent to £69.8m (2005: £63.2m), but reduced gross margins resulted in operating losses before exceptional reorganisation charges and amortisation of goodwill. We had provided an exceptional charge in the unaudited Interim results for the period ended 30 September 2005 in order to radically reduce on-going operating costs. Shortly afterwards we were approached by some of the European management team to undertake a management buy-out, which eventually failed. However, this prompted a number of European trade enquiries resulting in the sale of the subsidiaries to Magirus International GmbH, a German distributor. The provisional loss on disposal is estimated to be £3.7m as the final consideration is dependent on collection of accounts receivable and the valuation of inventories and will be finalised on 31 March 2007. However, the sale also includes repayment of the inter-company trade debt accounts of £15.8m, which had continued to increase reflecting strong revenue growth in Spain and Italy where long trade credit periods are normal, whereas security products were purchased in the UK on monthly credit terms.

## Debt

At 31 March 2006 cash balances and net debt respectively were £12.7m and £19.5m (2005: £10.5m and £22.2m).

The cash inflow during the coming year from the sale of the European subsidiaries is approximately £19m and will eliminate much of the Group's debt.

## Board

On 23 May 2006, we appointed Mark Lower, the Managing Director of our recently launched Managed Voice Services division, to the Board. He joins from next generation telecommunications company Evoxus, where he was CEO. Under his management, Evoxus, a spin off from BT, grew turnover from £3m to £20m in 3 years. He previously worked at BT for 22 years, leaving the company as Commercial & New Business Director of BT Wholesale. Full details of Board appointments and resignations can be found in the Management team and Directors' report on pages 13 to 15.

## Outlook

We ended the year in good shape, having just completed a period when we have made some difficult decisions. Our UK Specialist Distribution Division benefited in the second half of the year from cost reduction and revenue growth and whilst market conditions will remain tough there is still an opportunity to increase profits and generate positive cash flow.

We are very fortunate to have a Managed Services Division with recurring revenues where we can now focus more of our efforts, selling high margin proprietary services; we believe, as discussed previously, that this Division will continue to be successful and profitable in the year ahead.

Also, following the disposal of the loss-making division, the Group's senior management team can now focus its attention on profit making.

Peter Wilkinson

*Chief Executive Officer*

30 June 2006

# Financial review

The table below compares this year's results against prior year and provides a summary of the results by profit centre:

| | Turnover | | | EBITAE (i) | | | Group operating profit / (loss) | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2006 £m | 2005 £m | +/(-) £m | 2006 £m | 2005 £m | +/(-) £m | 2006 £m | 2005 £m | +/(-) £m |
| UK Specialist Distribution | **189.7** | 198.2 | (8.5) | **4.2** | 6.0 | (1.8) | **0.6** | 3.9 | (3.3) |
| Managed Services | **25.3** | 22.1 | 3.2 | **1.8** | (2.0) | 3.8 | **(1.5)** | (4.3) | 2.8 |
| Continuing operations | **215.0** | 220.3 | (5.3) | **6.0** | 4.0 | 2.0 | **(0.9)** | (0.4) | (0.5) |
| Discontinued operations (ii) | **69.7** | 63.2 | 6.5 | **(2.0)** | 0.4 | (2.4) | **(5.3)** | 0.1 | (5.4) |
| **Group** | **284.7** | 283.5 | 1.2 | **4.0** | 4.4 | (0.4) | **(6.2)** | (0.3) | (5.9) |

Notes:

(i) EBITAE comprises earnings before interest, taxation, amortisation of goodwill and exceptional items.

(ii) Discontinued operations relate to the European Specialist Distribution subsidiaries disposed of on 31 March 2006.

## Exceptional costs

There were £5.5m (2005: £nil) of exceptional costs in the year in respect of reorganisation activity.

The exceptional costs of reorganisation for continuing UK operations of £2.4m (2005: £nil) relate to headcount reductions of £1.3m, property related costs of £0.8m and fixed asset write-offs of £0.3m.

The exceptional costs of reorganisation for discontinued European operations of £3.1m (2005: £nil) relate to headcount reductions of £1.6m, property related costs of £0.8m, fixed asset write-offs of £0.4m, provision for on-going support services of £0.2m and legal and professional fees of £0.1m.

## UK Specialist Distribution

Along with others in the sector we have experienced margin pressures from both vendors and customers leading to a decline in revenue to £189.7m (2005: £198.2m) and EBITAE to £4.2m (2005: £6.0m). Operating profit was £0.6m (2005: £3.9m). In order to alleviate these pressures and maintain operating margins we commenced a cost reduction programme in the first half of the year leading to the exceptional costs referred to above. The benefits of this initiative became apparent in the second half of the year.

Andrew Kaberry

## European Specialist Distribution

Although we had provided for an exceptional reorganisation charge in the unaudited Interim results for the period ended 30 September 2005, in the second half of the year it became apparent that further significant investment of both finance and management time would have been required to move the European Specialist Distribution Division into profitability and as a result the Division was no longer considered core to the Group. On 31 March 2006 we announced the sale of Allasso SAS, Allasso GmbH, Allasso Iberia SAU, Allasso Italia Srl and Allasso Benelux bv ('Allasso Europe') to Magirus International GmbH.

The provisional loss on disposal is estimated to be £3.7m as the final consideration is dependent on collection of debtors and the valuation of stock and will be finalised on 31 March 2007.

## Managed Services

The Managed Services Division achieved increased revenues of £25.3m (2005: £22.1m) and EBITAE of £1.8m (2005: £2.0m loss). Operating loss was £1.5m (2005: £4.3m loss). In the coming year we aim to build on this and have reorganised teams within the Division to increase focus on winning new business while continuing to service our strong existing customer base.

## Goodwill

We conducted an impairment review of the carrying value of goodwill arising on the acquisition of HOLF Technologies Limited and VData Limited in July 2000 together with Allasso Limited in July 2003 and the trade and assets of NetConnect Training in June 2004.

We have considered the recoverable amounts by reference to the net present value of estimated current and future cash flows of the relevant income generating units. The value in use has been derived from discounted cash flow projections that cover the 4 years from 1 April 2006. After this 4-year period, the projections use a long-term growth rate.

Our confidence in the long-term success of both our UK Specialist Distribution division and Managed Services division indicate that no impairment write down is necessary this year.

## Cash flow and liquidity

The Group achieved a net cash inflow from operating activities of £10.7m (2005: £2.0m outflow). Cash at bank and in hand at the year-end was £12.7m (2005: £10.5m). Close control of working capital allowed us to reduce net debt to £19.5m (2005: £22.2m). This reduction in debt will improve further in the year to 31 March 2007 as we realise a cash inflow from the sale of Allasso Europe of approximately £19m.

## Taxation

The tax credit of £0.5m (2005: £0.1m charge) on the loss on ordinary activities before taxation of £12.1m (2005: £2.5m) is lower than the UK rate of 30% because of non-deductible costs, primarily goodwill amortisation and certain exceptional costs. This was offset in part by the utilisation of tax losses arising in prior years in respect of the Managed Services Division. A full reconciliation of the tax charge is provided in note 6 to the financial statements.

## Financial instruments

The Group's policy is that no trading in financial instruments is undertaken. The Group's financial instruments comprise borrowings, cash and liquid resources and various items that arise directly from its operations. The main risks arising from these are interest rate risk, liquidity risk, and foreign currency risk as the Group trades in euro and US dollars.

Andrew Kaberry

*Finance Director*

30 June 2006

# Technology review

*InTechnology aims to meet the needs of existing customers as they develop and grow*

The past year has seen marked advances in the scope and range of InTechnology's Managed Services.

IT and communications systems are of strategic importance to all organisations today and there are significant benefits in outsourcing day-to-day data, network and infrastructure management; clients can make efficiency gains, save on costs, mitigate risk and improve levels of performance for their users.

InTechnology is at the forefront of this fast-growing area, currently managing 2,500 terabytes of customer data from organisations in all sectors. In the past year the company has launched new services for customers, extended its national data network, set up a new Division to exploit voice communications opportunities and invested in new systems to ensure that its lead is strengthened in the future.

## Meeting customers' changing needs

As well as attracting new customers for its Managed Services, InTechnology aims to meet the needs of existing customers as they develop and grow, supporting them flexibly with an expanding and continually improving range of services.

New and more scalable versions of the VBAK service for automated data backup have therefore been launched so that customers of all sizes can benefit, from SME's with contracts worth tens of thousands of pounds to enterprise level customers with contracts in millions. As customers experience rapid growth in their data volumes, they need backup services which can be scaled up to meet growing demands; the latest VBAK service can be flexibly scaled for customers whose requirements rapidly increase or decrease through corporate or commercial change.

## The importance of archiving

Managed services have also been developed and launched for Information Lifecycle Management, helping customers to archive inactive yet still important email and file system data securely and cost effectively for longer periods to meet operational, commercial and legislative requirements.

Many customers of the VBAK service for data backup are now subscribing to the archiving service as well, to protect their business information in case of disaster or outage, whilst better managing their information day-to-day for improved operational efficiency, IT utilisation and retrieval of information for legal and regulatory compliance.

## Enterprise class email

An industry leading service for Managed Exchange has been launched to provide customers with a dedicated and resilient enterprise class Exchange 2003 environment. In most organisations, employees' dependence on email messaging has increased, while their IT departments have faced the challenging and complex task of maintaining email availability to meet this demand.

InTechnology's Managed Exchange Service reduces the cost of deploying and managing Microsoft Exchange and offers improved availability and productivity, advanced security and resilient data storage. With remote management by InTechnology's Exchange experts, clients gain protection against malicious external threats through integrated anti-virus, spam and content filtering, as well as seamless data backup and recovery.

The first customer for the new service is Compel Group plc, the UK's biggest IT rental company, who have outsourced their email management, data backup and storage to InTechnology.

## Strategic network expansion

Major enhancements have been made to InTechnology's LANnet network, which carries data and voice communications securely around the UK. The enhancements increase the network's coverage and treble the number of points-of-presence through which customers can be connected. This expansion is of strategic importance to InTechnology's development of Managed Services because, once a customer is connected to the network, additional services can readily be delivered on the network at minimal additional cost.

## Investment in e-business

InTechnology is investing in new CRM and ERP systems to increase the reach of its services to customers and improve the overall customer experience while reducing the cost of sale. These tools and applications are being deployed to extend the potential for e-business for the Company; customers will be able to scale their subscription to services up or down, depending on their changing requirements, and InTechnology will be able to automate delivery of new services on-line.

## Managed Voice Services Division

The market for voice over internet protocol ('VOIP') services in the UK is expanding rapidly as businesses grasp the many benefits of voice systems which are delivered to the desktop via the internet, benefits which include dramatically reduced costs and enhanced user functionality.

To strengthen its position and increase its focus on this business opportunity, InTechnology has launched a dedicated Managed Voice Services Division. A partnership has been agreed with voice specialists Evoxus and new managers have been appointed who have a proven track record in this marketplace. A new licensing agreement with software provider Broadsoft will confirm InTechnology as one of the largest providers of hosted IP PBX services in the UK.

Through a partnership with 3Sixty Systems Limited, the CRM and software development company, InTechnology's IP Voice Connect hosted telephony service is offered to 3Sixty customers and a prestigious customer, law firm Robin Simon LLP, has already signed for the service.

## Roadmaps for the future

A set of 'roadmaps' has been created to support planning of future technological development; InTechnology is committed to working with customers to align future developments to the key requirements of tomorrow's organisations and the roadmaps will give structure and focus to this planning, allowing customers to share in and contribute to planning of services.

Already being developed are services for:

### • Data Management

As part of the new and improved VBAK Service, InTechnology is developing the ability to archive primary file and print data using the same VBAK agents and back end vaults.

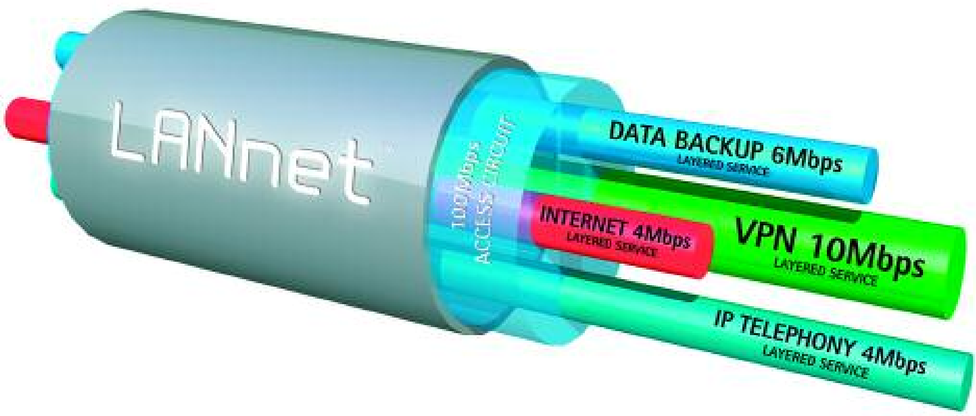
InTechnology's pay-as-you-go email archiving service, powered by the industry leading Symantec Enterprise Vault software, will be further enhanced by integrating version 7.0 of the software, as well as supporting additional applications and protocols.

### • Managed Exchange

Added functionality will include single mailbox recovery and PST (local PC mailbox files) file migration tools, Blackberry mobile access and Symantec Enterprise Vault integration. Additionally, InTechnology will develop a small business solution, which offers a shared Exchange infrastructure for the SME market.

### • Web File Service

InTechnology will launch its unique Web File Service, based on Xythos' cutting edge technology, which enables organisations, and in particular education institutions, to collaborate and share information across the campus and with external users anywhere in the world. The Web File Service can be accessed from a standard web browser via secure Internet based data storage, file access and simplified document management.



## Key business wins

In the past year, InTechnology's innovative drive and world class technological infrastructure has attracted notable new customers across diverse fields, including education, construction, retail and law.

Customers are convinced by the robust and proven infrastructure platform on which InTechnology's services are delivered; Government certified secure network, resilient data centres, state of the art firewall protection, extensive technical and support skills.

20 of the UK's top 100 law firms now subscribe to InTechnology's Managed Services to assure the reliability and integrity of their confidential client and commercial data. In addition, many commercial customers have also signed services contracts such as Carl Bro Limited (one of the largest international consultancy groups), and The Financial Training Company (part of the Kaplan Inc group).

In the public sector, there has been a major contract win with London Borough of Bromley, the first large local authority signing for Managed Services.

There has been conspicuous success in the field of education, with InTechnology's services now available to all UK higher, further and adult education institutions through special agreements with London Metropolitan Network and United Kingdom Education and Research Networking Association ('UKERNA'). The UKERNA interconnect agreement enables cost effective delivery of VBAK automated data back-up, data archiving, hosting and web file services to institutions connected to the network.


# Management team

## *Non-Executive Directors*

**The Rt. Hon Lord Parkinson,**
Chairman and Senior non-Executive Director, aged 74

Lord Parkinson was appointed to the Board in July 2000 as a non-Executive Director and is Chairman of the Audit Committee and a member of the Remuneration Committee. Lord Parkinson is a Member of the House of Lords and was a Member of Parliament from 1970 to 1992, during which time he held a number of senior ministerial positions including Secretary of State for Trade and Industry, Energy and Transport. He was Chairman of the Conservative Party from 1981 to 1983 and again from 1997 to 1998. A qualified chartered accountant, Lord Parkinson was a Partner in Westwake Price (City Chartered Accountants) for 10 years and is currently Chairman and Director of a number of other companies including Jarvis Group Limited, Huntswood plc and Le Carbone UK Group of Companies.

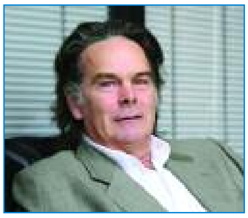
**Joe McNally,**
non-Executive Director, aged 63

Joe McNally was appointed to the Board in December 2000 as a non-Executive Director. He founded Compaq UK and Ireland in 1984 and was latterly appointed Chairman, before retiring in August 2001. Previously he was Chief Executive of FMC Harris plc.

**Charles Scott,**
non-Executive Director, aged 57

Charles Scott joined the board in April 2001 as a non-Executive-Director. A chartered accountant, he is currently Chairman of William Hill plc and a Director of 3 other companies.

## *Executive Directors*



**Peter Wilkinson,**
Chief Executive Officer, aged 52

Peter Wilkinson founded STORM in 1983 and VData in 1998 and both these businesses were sold to InTechnology plc in 2000 (in which he retains a 56% shareholding). Peter was appointed to the Board of InTechnology in July 2000.

In 1995, he started Planet Online Limited, the internet service provider, which was subsequently sold to Energis in 1998. He retained Planetfootball.com which was reversed into Sports Internet Group plc in 1999 and subsequently sold to BskyB plc in 2000. In 1998, Peter invented the free ISP model Freeserve, the internet access service which was launched by Dixons Group plc.

In 2002, he formed Digital Interactive Television Group Limited ('DITG') which was subsequently sold to YooMedia plc in December 2004. Additionally, Peter holds a 25% stake in Mobile Tornado Group plc, a leading global provider of instant messaging solutions for mobile operators including 'push to talk' applications.

**Andrew Kaberry,**
Finance Director, aged 59

Andrew Kaberry was Finance Director of both STORM and VData and has worked with Peter Wilkinson since 1984. Andrew was appointed to the Board of InTechnology in July 2000. He has significant experience of the computer industry and was Finance Director of Planet Online Limited. Andrew qualified as a chartered accountant with KPMG in 1972.

**Steve Pearce,**
Chief Operating Officer and Business Development Director, aged 47

Steve Pearce was Divisional Sales Director for VData and was previously Divisional Sales Director for Planet Online Limited and STORM. He has previous experience with a number of companies in the technology sector including Digital Equipment Corporation Limited, Data General UK Limited and Radius Software Limited.

**Richard James,**
Company Secretary, aged 45

Richard James qualified as a solicitor with Allen & Overy in 1986 and was a Partner at Pinsent Curtis in 1991, before moving to Hammonds as a Partner in 1996. After advising Peter Wilkinson on the acquisition of Planetfootball.com by Sports Internet Group plc, Richard was appointed as Managing Director of Planetfootball.com and Company Secretary of Sports Internet Group plc. Richard was appointed to the Board of InTechnology in September 2000 as a Director and Company Secretary.

**Bryn Sage,**
Sales Director, aged 40

Bryn Sage has spent his career in the data storage arena beginning as an Apprentice Engineer in Systime Computers in 1981. In 1986, he joined STORM as an Engineer and progressed through the company to the position of Sales Director in 1994.

**Jason Firth,**
Director of Professional Services, aged 35

Jason Firth joined InTechnology in July 2003 as Customer Services Director before joining the Board in September 2005 as Director of Professional Services. He first worked alongside Peter Wilkinson in 1995 at Planet Online Limited and headed up the technical team at Planetfootball.com and then became Technical Director of Sports Internet Group plc before it was sold to BSkyB plc in 2000, where he subsequently went on to be Technical Director of SkySports.com.

**Mark Lower,**
Managing Director Managed Voice Services, aged 47

Mark Lower joined the Board of InTechnology on 23 May 2006. In June 2003 he led a management buyout from BT plc of Evoxus Limited; a next generation telecommunications company, where he was CEO. His BT career spanned 22 years, in two periods, leaving the Company as Commercial and New Business Development Director of the Wholesale division. From 2000 to 2001, Mark was a Board member; Sales and Customer Relationship Director at Kingston Communications plc. He successfully expanded the regional operation into a national business, driving sales from £64m to £100m, instigating industry leading customer service initiatives and processes. From 1998 to 2000 he worked for Telewest Communications Limited, now part of NTL Group. He was instrumental for managing the successful integration and operation of a number of cable companies acquired during this period and held the position of Sales and Marketing Director for the Business division.

# Directors' report

The Directors present their annual report and audited financial statements of the Company and the Group for the year ended 31 March 2006.

## Principal activities

InTechnology plc is a specialist advanced data technology Group providing services and products via channel partners for data storage and deployment, data management, protection and security through its wide-area private network infrastructure.

## Business review

The information that fulfils the requirements of the Business Review can be found in the Chief Executive Officer's report, Financial review and Technology review on pages 3 to 12 which are incorporated within this report by reference.

## Results and dividends

The Directors are unable to recommend the payment of a dividend in respect of the year ended 31 March 2006 (2005: £nil). The Company currently intends to reinvest future earnings to finance the growth of the business.

The loss sustained for the financial year of £11,661,000 (2005: £2,575,000) will be deducted from reserves.

## Charitable and political donations

The contributions made by the Group during the year for charitable purposes totalled £26,000 (2005: £16,000), comprising children's charities £7,000 and tsunami disaster relief £19,000. The Group made no political contributions (2005: £nil).

## Directors

The Directors of the Company during the year ended 31 March 2006, together with brief biographies, are shown on pages 13 to 14, with the exception of Charles Cameron who resigned as a director on 21 April 2005 and John Swingewood who resigned as a director on 20 September 2005.

## Re-election of Directors

In accordance with the Articles of Association of the Company, Directors will retire by rotation. Accordingly, Steve Pearce, Bryn Sage, Jason Firth, Mark Lower and the Rt. Hon. Lord Parkinson (aged 74) will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

All Directors must be re-elected at intervals of not more than three years in accordance with the provisions of the Combined Code of Corporate Governance.

## Directors' remuneration and interests

The Remuneration report is set out on pages 22 to 25. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements. The Company's Register of Directors' Interests, which is open to inspection at the Company's registered office, contains full details of Directors' shareholdings and options to subscribe for shares.

The Board's Corporate Governance report, including the Directors' statement on responsibilities for the preparation of financial statements, is set out on pages 19 to 21.

Details of related party transactions involving Directors of the Company are given in note 26 to the financial statements.

## Substantial shareholdings

At 30 June 2006, the Company had received notification that the following are interested in more than 3 per cent of the issued ordinary share capital of the Company:

| | Percentage of shares held |
|---|---|
| Peter Wilkinson | 55.6% |
| Artemis Investment Management Limited | 8.4% |
| Jon Wood | 7.5% |
| Andrew Kaberry | 5.2% |

## Going concern

Under company law, the Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the Company and Group are going concerns. As part of its normal business practice, budgets, cash flow forecasts and longer term financial projections are prepared and in reviewing this information, the Directors are satisfied that the Company and the Group have adequate resources to enable them to continue in business for the foreseeable future. The Directors have therefore adopted the going concern basis in the preparation of the financial statements.

## Employees

The Group places considerable value on the involvement of its employees and has continued its practice of keeping them informed of matters affecting them as employees and the various factors affecting the performance of the Group.

The Directors recognise that continued and sustained improvement in the performance of the Group depends on its ability to attract, motivate and retain employees of the highest calibre. Furthermore, the Directors believe that the Group's ability to sustain a competitive advantage over the long term depends in a large part on ensuring that all employees contribute to the maximum of their potential. The Group is committed to improving the performance of all employees through development and training.

The Group is an equal opportunity employer. The Group's policies seek to promote an environment free from discrimination, harassment and victimisation and to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, age, race, colour, nationality or national origin, disability or sexual orientation or is disadvantaged by conditions or requirements, which cannot objectively be justified. Entry into, and progression within the Group, is solely determined on the basis of work criteria and individual merit.

The Group continues to give full and fair consideration to applications for employment made by disabled persons, having regard to their respective aptitudes and abilities. The policy includes, where practicable, the continued employment of those who may become disabled during their employment and the provision of training and career development and promotion, where appropriate.

## Share schemes

Share ownership is at the heart of the Group's remuneration philosophy and the Directors believe that the key to the Group's future success lies in a motivated workforce holding a stake in the Company. The schemes are described in the Board's Remuneration report and details of the options granted under the schemes are set out in note 18 to the financial statements. All permanent employees are eligible to join the schemes.

## Research and development

The Group continues to undertake research and development of new products with the objective of increasing future profitability. The cost to the Group is charged to the profit and loss account as incurred.

## Policy and practice on payment of creditors

It is the Group's policy to agree terms and conditions for its business transactions with its suppliers. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

In the year ended 31 March 2006 average creditor days for the Group and Company were 27 days (2005: 31 days) and 32 days (2005: 33 days) respectively.

## Environment

The Group recognises the importance of environmental responsibility. The nature of its activities has a minimal effect on the environment but where they do, the Group acts responsibly and is aware of its obligations at all times.

## Annual General Meeting

The next AGM of the Company will be held on 8 August 2006. Details of the business to be proposed at the AGM are contained within the Notice of Meeting, which is set out on pages 58 and 59.

## Independent auditors

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and a resolution proposing that they be reappointed as independent auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

So far as each director is aware, there is no relevant information of which the Company's auditors are unaware. Each 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.

By order of the Board

Richard James

*Company Secretary*

30 June 2006

Richard James

# Corporate governance

InTechnology plc is an AIM listed company and is not therefore required to comply with the Principles of Good Governance and Code of Best Practice, the 'FRC Combined Code on Corporate Governance'. The following disclosures are made voluntarily.

## Principles of Corporate Governance

The Board recognises the value of good corporate governance as a positive contribution to the well being of the business and believes in applying these principles, (including those set out in Section 1 of the Combined Code), in a sensible and pragmatic manner.

Peter Wilkinson, as majority shareholder in the Company, has signed an agreement stating that he will not seek to influence the Board by reason of his shareholding.

## Board of Directors

The Board of Directors consists of ten members, including a non-Executive Chairman and two other non-Executive Directors.

The roles of Chairman and Chief Executive Officer are separated and clearly defined. The activities of the Group are controlled by the Board, which meets throughout the year. There is a formal schedule of matters specifically reserved for the full Board's decision, together with a policy enabling Directors to take independent advice in the furtherance of their duties at the Group's expense. The Board programme is designed so that Directors have regular opportunity to consider the Group's strategy, policies, budgets, progress reports and financial position and to arrive at a balanced assessment of the Group's position and prospects.

The Board is assisted by the Company Secretary, who provides a point of reference and regular support for all Directors and senior managers. He has responsibility for ensuring that Board procedures are followed, for establishing the Group's corporate governance policies and for assisting the Board in facilitating compliance by the Company with its legal obligations.

The Board has appointed two standing committees, which are as follows:

*The Audit Committee*
Comprises the two non-Executive Directors and the non-Executive Chairman and is chaired by Lord Parkinson. Its duties include a comprehensive review of the annual and interim financial statements before they are presented to the Board for approval. The Audit Committee meets at least twice a year to review the findings of the external auditors, key accounting policies and judgements. It has unrestricted access to the Company's auditors.

*The Remuneration Committee*
Comprises the two non-Executive Directors and the non-Executive Chairman and is chaired by Joe McNally. It meets at least once a year and is responsible for making recommendations to the Board on remuneration policy for Executive Directors and for setting salaries, incentive payments and the granting of share options.

## Relations with shareholders

The Company seeks to ensure that all shareholders are kept informed about the Company and its activities. A comprehensive annual report and accounts and an interim report are sent to shareholders and there is frequent dialogue with institutional investors, including presentations following the preliminary and interim announcements.

The Annual General Meeting is a forum for shareholders' participation with the opportunity to meet and question Board members including the non-Executive Chairman and the Chairmen of the Board committees.

## Internal control

The Board of Directors acknowledges its overall responsibility for the Company's systems of internal control and for monitoring their effectiveness. The Board has control over strategic, financial and compliance issues and has introduced a structure of responsibility with appropriate levels of authority.

The Company's Directors and varying levels of management have clear responsibilities in ensuring that the control environment operates efficiently. Clear lines of responsibility are developed through the Company's organisation structure. Ethical policies are communicated through all forms of personnel training and via appropriate procedures, in establishing a code of ethics.

Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide reasonable assurance that problems are identified on a timely basis and are dealt with appropriately. The principal features of the Company's internal financial control structures can be summarised as follows:

a. Preparation of budgets and forecasts approved by the Board.

b. Monthly management accounts, showing comparisons of actual results against budget and prior year results, are reviewed by the Board. Variances from budget are thoroughly investigated and discussed at monthly Board meetings. Where lapses in internal control are detected, these are rectified.

c. The Company's cash flow is monitored monthly compared to forecast.

d. The Board authorises capital expenditure where this is significant.

The Board has continued to enhance its risk control programme, in particular, those elements which relate to ensuring that risk reviews are formally embedded in control systems rather than being the subject of formal annual reviews.

## Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year.

The Directors confirm that suitable accounting policies have been used and applied consistently as explained on pages 32 and 33 under the heading 'Accounting policies'. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2006, that applicable accounting policies have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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 maintenance and integrity of the InTechnology website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Richard James

*Company Secretary*

30 June 2006

# Remuneration report

As an AIM listed company InTechnology plc is not required to comply with Schedule 7A of the Companies Act 1985. The following disclosures are made voluntarily. The contents of this report are unaudited unless clearly identified as audited.

The Remuneration Committee comprises the non-Executive Directors:

Joe McNally (Chairman)

The Rt. Hon. Lord Parkinson

Charles Scott

## Directors' remuneration

*Remuneration of non-Executive Directors*

The remuneration of the non-Executive Directors is determined by the Board, with the assistance of independent advice concerning comparable organisations and appointments. The non-Executive Directors do not take part in discussions on their remuneration. Neither the non-Executive Chairman nor the other non-Executive Directors received any pension or other benefits from the Group, nor did they participate in any of the bonus schemes.

The non-Executive Chairman and Directors have interests in share options as disclosed on page 25.

*Remuneration of Executive Directors*

The main aim of the Company's Executive pay policy is to secure the skills and experience needed to meet its strategic business objectives. Furthermore, the Company aims to align the interests of all employees as closely as possible with the interests of shareholders through share-based incentives.

The Company's Remuneration Committee decides the remuneration policy that applies to Executive Directors. In setting the policy it considers a number of factors including:

(a) The basic salaries and benefits available to Executive Directors of comparable companies.

(b) The need to attract and retain Directors of an appropriate calibre.

(c) The need to ensure Executive Directors' commitment to the continued success of the Group by means of incentive schemes.

The Company's remuneration policy is to:

(a) Have regard to the Directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality.

(b) Link individual remuneration packages to the Group's long term performance through the award of share options and incentive schemes.

(c) Provide post retirement benefits through defined contribution pension schemes.

(d) Provide employment-related benefits including the provision of a company car, (or car allowance), fuel, medical and life insurance and insurance relating to the Directors' duties.

## Salaries

The Remuneration Committee meets at least once a year in order to consider and set the annual salaries for Executive Directors, having regard to the needs of the Company, individual responsibilities, personal performance and independently compiled salary survey information.

## Pensions (audited)

The Executive Directors are members of defined contribution pension schemes, the assets of which are held independently of the Company. The amounts contributed by the Company (based on salaries excluding bonuses) for the year ended 31 March 2006 were £64,000 (2005: £60,000). The Company does not provide any other post-retirement benefits to the Directors.

## Contracts of service

The Executive Directors have contracts of service that can be terminated by the Company with the following notice periods:

| | |
|---|---|
| Peter Wilkinson | 12 months |
| Andrew Kaberry | 6 months |
| Richard James | 12 months |
| Steve Pearce | 6 months |
| Bryn Sage | 6 months |
| Jason Firth | 12 months |

With the exception of the contract with Richard James, if the Company terminates the contract by notice but other than on giving full notice, the contracts of service provide for the payment of a fixed amount equal to the salary and other contractual benefits for the unexpired portion of the appointment or entitlement to notice, as the case may be.

## Non-Executive Directorships

The Remuneration Committee believes that the Group can benefit from Executive Directors accepting appointments as non-Executive directors of other companies. The Director concerned may retain any fees related to such employment.

## Directors' emoluments (audited)

The remuneration of the Directors of the Company was as follows:

| | 2006 | | | | | | 2005 |
|---|---|---|---|---|---|---|---|
| | Salary £'000 | Bonus £'000 | Pay in lieu of notice £'000 | Benefits in kind £'000 | Pension contributions £'000 | Total £'000 | Total £'000 |
| **Executive Directors** | | | | | | | |
| Peter Wilkinson | **212** | **–** | **–** | **34** | **2** | **248** | 250 |
| John Swingewood | **59** | **3** | **–** | **–** | **8** | **70** | 171 |
| Charles Cameron | **13** | **1** | **187** | **3** | **25** | **228** | 216 |
| Bryn Sage | **110** | **52** | **–** | **24** | **5** | **191** | 206 |
| Andrew Kaberry | **150** | **–** | **–** | **29** | **12** | **191** | 189 |
| Richard James | **150** | **12** | **–** | **5** | **–** | **167** | 179 |
| Jason Firth | **42** | **24** | **–** | **8** | **4** | **79** | – |
| Steve Pearce | **150** | **–** | **–** | **22** | **8** | **180** | 200 |
| | **886** | **92** | **187** | **125** | **64** | **1,354** | 1,411 |

| | Fees £'000 | Bonus £'000 | Pay in lieu of notice £'000 | Benefits in kind £'000 | Pension contributions £'000 | Total £'000 | Total £'000 |
|---|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | | | | | | |
| The Rt. Hon. Lord Parkinson | **50** | **–** | **–** | **–** | **–** | **50** | 50 |
| Joe McNally | **30** | **–** | **–** | **–** | **–** | **30** | 30 |
| Charles Scott | **30** | **–** | **–** | **–** | **–** | **30** | 30 |
| | **110** | **–** | **–** | **–** | **–** | **110** | 110 |
| **Total** | **996** | **92** | **187** | **125** | **64** | **1,464** | 1,521 |

Benefits in kind include the provision of a company car, fuel, medical, life insurance and insurance relating to the Directors' duties.

## Directors' interests

*Interests in shares*

The interests of the Directors in the shares of the Company as at 31 March were:

| | 2006 and 2005 Number | Percentage of shares held |
|---|---|---|
| Peter Wilkinson | 78,403,998 | **55.6%** |
| Andrew Kaberry | 7,379,562 | **5.2%** |
| Steve Pearce | 3,939,781 | **2.8%** |
| | 89,723,341 | **63.6%** |

Apart from the interests disclosed above and the interests in share options disclosed below, none of the other Directors of the Company at 31 March 2006 held interests at any time in the year in the share capital of the Company or other Group companies.

There have been no other changes in Directors' shareholdings since 31 March 2006.

## Interests in share options (audited)

The following share schemes were in place at the year end:

- Rolled over HOLF granted 23/12/99 at 43.3 pence per share
- Rolled over VData granted 7/01/00 at 1.8 pence per share
- Options granted directly by InTechnology plc at varying dates and prices

Further details are provided in note 18.

The Company has also introduced an Inland Revenue approved Save As You Earn scheme ('SAYE'). SAYE options will be exercisable on completion of an associated savings contract. The SAYE options may be granted at a discount of up to 20% to the market price of the Company's shares on the day prior to the day of invitation, as permitted by the rules of the scheme.

Set out below are details of share options that have been granted to Executive and non-Executive Directors:

| Executive Directors | No. of share options 2006 and 2005 | Exercise price (p) | Earliest exercise date | Expiry date |
|---|---|---|---|---|
| Richard James | 400,000 | 150.0 | 01/09/03 | 01/04/11 |
| Richard James | 400,000 | 52.0 | 04/07/05 | 04/07/12 |
| Andrew Kaberry | 1,596,399 | 43.3 | 23/12/02 | 23/12/09 |
| Bryn Sage | 798,200 | 43.3 | 23/12/02 | 23/12/09 |
| Bryn Sage | 443,769 | 1.8 | 07/01/03 | 07/01/10 |
| **Non-Executive Directors** | | | | |
| Lord Parkinson | 221,885 | 1.8 | 07/01/03 | 07/01/10 |
| Lord Parkinson | 203,178 | 43.3 | 23/12/02 | 23/12/09 |
| Joe McNally | 50,000 | 337.5 | 01/11/03 | 01/11/10 |
| Charles Scott | 50,000 | 327.5 | 02/01/04 | 02/01/11 |

No share options have been granted or exercised nor have lapsed in the year.

No Directors have been granted or exercised share options since 31 March 2006.

The market price of the Company's shares at 31 March 2006 was 40.5p (2005: 49.4p) and the range during the year then ended was 48.4p to 29.0p.

Joe McNally

*Non-Executive Director*

30 June 2006

# Independent auditors' report to the members of InTechnology plc

## For the year ended 31 March 2006

We have audited the group and parent company financial statements (the "financial statements") of InTechnology plc for the year ended 31 March 2006 which comprise the Consolidated profit and loss account, the Consolidated statement of total recognised gains and losses, the Note of historical cost losses, the Reconciliation of movements in Group shareholders' funds, the Group and Company balance sheets, the Consolidated cash flow statement, the Accounting policies and the related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of Directors and auditors

The directors' responsibilities for preparing the 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 legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chief Executive Officer's report, the Financial review and the Technology review that is cross referred from the Business Review section of the Directors' Report. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's introduction, Chief Executive Officer's report, the Financial review, the Technology review, the Management Team, the Directors' report, the Corporate Governance report and the Remuneration report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

## 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 group's and company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

*Chartered Accountants and Registered Auditors*

Leeds

30 June 2006

# Consolidated profit and loss account

## For the year ended 31 March 2006

| | Note | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **Turnover** | | | |
| Continuing operations | | 214,966 | 220,339 |
| Discontinued operations | | 69,763 | 63,183 |
| | 1 | 284,729 | 283,522 |
| Cost of sales | 3 | (235,656) | (230,579) |
| **Gross profit** | | **49,073** | **52,943** |
| Net operating expenses before depreciation, amortisation of goodwill and exceptional items | | (39,359) | (42,204) |
| Depreciation | | (5,716) | (6,388) |
| Amortisation of goodwill | | (4,732) | (4,635) |
| Exceptional costs of reorganisation: | | | |
| - Continuing operations | 2 | (2,387) | - |
| - Discontinued operations | 2 | (3,104) | - |
| Net operating expenses | 3 | (55,298) | (53,227) |
| **Group operating (loss) / profit** | | | |
| Continuing operations | | (885) | (403) |
| Discontinued operations | | (5,340) | 119 |
| **Group operating loss** | 1 | **(6,225)** | **(284)** |
| Loss on sale of subsidiary undertakings | 3 | (3,661) | - |
| Net interest payable | 4 | (2,226) | (2,181) |
| **Loss on ordinary activities before taxation** | | **(12,112)** | **(2,465)** |
| Tax on loss on ordinary activities | 6 | 451 | (110) |
| **Loss sustained for the financial year** | | **(11,661)** | **(2,575)** |
| | | | |
| **Loss per share (pence)** | | | |
| Basic and diluted | 8 | (8.26) | (1.84) |

# Consolidated statement of total recognised gains and losses

## For the year ended 31 March 2006

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| **Loss sustained for the financial year** | **(11,661)** | **(2,575)** |
| Unrealised gain on revaluation of land & buildings | - | 1,754 |
| Exchange gain on translation of overseas subsidiaries | - | 172 |
| Exchange loss on translation of hedging loan | - | (172) |
| **Total recognised gains and losses relating to the year** | **(11,661)** | **(821)** |

# Note of Group historical cost losses

## For the year ended 31 March 2006

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| **Reported loss on ordinary activities before taxation** | **(12,112)** | **(2,465)** |
| Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | 108 | - |
| **Historical cost loss on ordinary activities before taxation** | **(12,004)** | **(2,465)** |
| **Historical cost loss for the year retained after taxation** | **(11,553)** | **(2,575)** |

# Reconciliation of movements in Group shareholders' funds

## For the year ended 31 March 2006

| | Note | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| Loss sustained for the financial year | | (11,661) | (2,575) |
| Unrealised gain on revaluation of land & buildings | | - | 1,754 |
| Proceeds of ordinary share capital issued | | - | 27 |
| Premium on ordinary share capital issued | | - | 248 |
| Exchange gain on translation of overseas subsidiaries | | - | 172 |
| Exchange loss on translation of hedging loan | | - | (172) |
| **Net change in shareholders' funds** | | **(11,661)** | **(546)** |
| Opening shareholders' funds | 19 | 91,477 | 92,023 |
| **Closing shareholders' funds** | 19 | **79,816** | **91,477** |

# Balance sheets

## As at 31 March 2006

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | 2006 | 2005 | 2006 | 2005 |
| | Note | £'000 | £'000 | £'000 | £'000 |
| **Fixed assets** | | | | | |
| Intangible assets | 9 | 65,104 | 74,813 | 66,084 | 70,568 |
| Tangible assets | 10 | 10,424 | 14,773 | 10,422 | 13,795 |
| Investments in subsidiary undertakings | 11 | - | - | 7,049 | 19,180 |
| | | **75,528** | **89,586** | **83,555** | **103,543** |
| **Current assets** | | | | | |
| Stocks | 12 | 6,622 | 13,179 | 6,622 | 12,597 |
| Debtors - due after more than one year | 13 | - | - | 1,455 | 1,455 |
| - due within one year | 13 | 89,247 | 105,399 | 88,901 | 82,286 |
| | | 89,247 | 105,399 | 90,356 | 83,741 |
| Cash at bank and in hand | | 12,719 | 10,488 | 12,661 | 9,473 |
| | | 108,588 | 129,066 | 109,639 | 105,811 |
| **Creditors** - amounts falling due within one year | 14 | (100,285) | (118,174) | (100,787) | (100,166) |
| **Net current assets** | | **8,303** | **10,892** | **8,852** | **5,645** |
| **Total assets less current liabilities** | | **83,831** | **100,478** | **92,407** | **109,188** |
| **Creditors** - amounts falling due after more than one year | 15 | (4,015) | (9,001) | (12,525) | (17,511) |
| **Net assets** | | **79,816** | **91,477** | **79,882** | **91,677** |
| **Capital and reserves** | | | | | |
| Called up share capital - equity | 18 & 19 | 1,411 | 1,411 | 1,411 | 1,411 |
| - non-equity | 18 & 19 | 480 | 480 | 480 | 480 |
| Share premium account | 19 | 188,668 | 188,668 | 188,668 | 188,668 |
| Revaluation reserve | 19 | 1,646 | 1,754 | 1,646 | 1,754 |
| Profit and loss account | 19 | (112,389) | (100,836) | (112,323) | (100,636) |
| **Shareholders' funds (including non-equity interests)** | | **79,816** | **91,477** | **79,882** | **91,677** |
| **Shareholders' funds comprise:** | | | | | |
| Equity interests | | 77,576 | 89,237 | 77,642 | 89,437 |
| Non-equity interests | | 2,240 | 2,240 | 2,240 | 2,240 |
| | | **79,816** | **91,477** | **79,882** | **91,677** |

The financial statements on pages 27 to 57 were approved by the Board of Directors on 30 June 2006 and were signed on its behalf by:

Andrew Kaberry
*Finance Director*

# Consolidated cash flow statement

## For the year ended 31 March 2006

| | Note | 2006 £'000 | 2005 £'000 |
|---|---|---|---|
| **Net cash inflow / (outflow) from operating activities** | 20 | **10,667** | **(2,000)** |
| **Returns on investments and servicing of finance** | | | |
| Interest received | | 92 | 160 |
| Interest element of finance lease payments | | (232) | (282) |
| Interest paid | | (2,008) | (2,033) |
| **Net cash outflow from returns on investments and servicing of finance** | | **(2,148)** | **(2,155)** |
| **Taxation paid** | | **(822)** | **(1,135)** |
| **Capital expenditure and financial investment** | | | |
| Purchase of tangible fixed assets | | (2,077) | (6,106) |
| Sale of tangible fixed assets | | 67 | 1,542 |
| **Net cash outflow from capital expenditure and financial investment** | | **(2,010)** | **(4,564)** |
| **Acquisitions and disposals** | | | |
| Purchase of subsidiary undertakings (including costs) | | - | (980) |
| Cash disposed of on sale of subsidiary undertakings | | (2,185) | - |
| **Net cash outflow for acquisitions and disposals** | | **(2,185)** | **(980)** |
| **Net cash inflow / (outflow) before financing** | | **3,502** | **(10,834)** |
| **Financing** | | | |
| Issue of ordinary share capital | | - | 275 |
| Net increase in borrowings | | 431 | 6,615 |
| Capital element of finance lease payments | | (1,706) | (1,991) |
| **Net cash (outflow) / inflow from financing** | | **(1,275)** | **4,899** |
| **Increase / (decrease) in cash in the year** | 21 & 22 | **2,227** | **(5,935)** |

# Accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable Accounting Standards in the United Kingdom. A summary of the main accounting policies which have been applied consistently (except as explained below) is set out as follows.

### Changes in accounting policies

The Group has adopted FRS 21 'Events after the balance sheet date', FRS 22 'Earnings per share' and FRS 25 'Financial instruments: Disclosure and presentation'. The adoption of these standards have not had an effect on the results of the Group.

### Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention modified to include the revaluation of certain fixed assets.

### Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings up to 31 March. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date on which control passes. Intra-group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, its assets and liabilities that exist at the date of acquisition are recorded at their fair values. All gains and losses that arise after the group has gained control of the subsidiary are included in the post acquisition profit and loss account.

### Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired and is amortised through the profit and loss account over its useful economic life. The Directors have assessed the estimated useful economic life of goodwill at 20 years from date of acquisition based on the strengths of the underlying businesses and projected future market growth. The Directors review the level of goodwill for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

### Tangible fixed assets

The cost of tangible fixed assets is their purchase cost with the exception of freehold land & buildings (which are held at valuation), together with any incidental expenses of acquisition.

Depreciation is calculated so as to write-off the cost of tangible fixed assets less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

| | |
|---|---:|
| Freehold buildings | 2% to 25% |
| Leasehold improvements | 20% |
| Office fixtures and fittings | 10% to 50% |
| Vehicles and computer equipment | 20% to 50% |

Freehold land is not depreciated.

Surpluses arising on the revaluation of tangible fixed assets are credited to a revaluation reserve. On subsequent disposal of a revaluated asset, the revaluation surplus relating to this asset is transferred to the profit and loss account reserve.

The Directors review tangible fixed assets for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

### Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

### Stocks

Stocks are stated at the lower of cost and net realisable value. Provisions are made for obsolete, slow-moving and defective items where appropriate.

# Accounting policies (continued)

### Revenue recognition

The Group only recognises revenue on the sale of equipment when the goods are received by the customer and when there are no unfulfilled obligations that affect the customer's final acceptance of the equipment. Service revenues are recognised over the period to which the service relates. Unrecognised service revenue and associated costs of sale are included as deferred income and deferred cost respectively in the balance sheet.

### Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the exchange rates ruling at the balance sheet date.

The results of overseas subsidiary undertakings are translated at the average exchange rate for the year. The assets and liabilities of such undertakings are translated at year end exchange rates. Any resulting exchange differences are taken to reserves and are reported in the statement of total recognised gains and losses. Exchange differences arising on borrowings in foreign currency financing overseas investments are taken to reserves to the extent they offset exchange differences in the investment.

All other exchange differences are taken to the profit and loss account.

### Lease agreements

Finance lease arrangements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the finance leases is shown as obligations under finance leases. The finance lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the profit and loss account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets.

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

### Deferred taxation

Full provision is made for deferred taxation resulting from timing differences between profits computed for taxation purposes and profits stated in the financial statements to the extent that there is an obligation to pay more tax or right to pay less tax, in the future as a result of the reversal of those timing differences. Deferred tax is not provided where a timing difference arises from the revaluation of fixed assets for which there is no binding agreement to sell.

Deferred tax assets are recognised to the extent that they are considered more likely than not to be recoverable in the foreseeable future. Deferred tax assets and liabilities are not discounted.

### Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

### Pension costs

The Company operates a defined contribution pension scheme for employees and directors. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account. The Company provides no other post-retirement benefits to its employees and directors.

### Share schemes

The Group grants share options to employees and directors on a discretionary basis. The scheme is 'unapproved' and all employees have agreed in writing to accept liability for any National Insurance contributions that become due on exercise of options. In addition the Group operates a SAYE scheme that is offered on similar terms to all employees.

### Debt issue costs

Debt issue costs are capitalised and offset against the loans to which they relate. The costs are amortised over the term of the loan.

# Notes to the financial statements

## For the year ended 31 March 2006

### 1 Segmental information

| | Turnover by destination | | Turnover by source | | Group operating (loss) / profit by source | |
|---|---|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| **Geographical analysis** | | | | | | |
| United Kingdom | 210,944 | 217,761 | 214,966 | 220,339 | (885) | (403) |
| Continental Europe | 72,488 | 64,970 | 69,763 | 63,183 | (5,340) | 119 |
| North America | 555 | 207 | - | - | - | - |
| South and Central America | 151 | - | - | - | - | - |
| Africa | 455 | 68 | - | - | - | - |
| Asia | 136 | 516 | - | - | - | - |
| **Total** | **284,729** | **283,522** | **284,729** | **283,522** | **(6,225)** | **(284)** |

| | Turnover | | Group operating profit / (loss) | | | |
|---|---|---|---|---|---|---|
| | | | Before goodwill amortisation and exceptional items | | After goodwill amortisation and exceptional items | |
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| **Business analysis** | | | | | | |
| Specialist Distribution | 259,395 | 261,449 | 2,229 | 6,321 | (4,763) | 3,967 |
| Managed Services | 25,334 | 22,073 | 1,769 | (1,970) | (1,462) | (4,251) |
| **Total** | **284,729** | **283,522** | **3,998** | **4,351** | **(6,225)** | **(284)** |

| Net assets / (liabilities) | Including goodwill | | Excluding goodwill | |
|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| **Geographical analysis** | | | | |
| United Kingdom | 79,939 | 78,586 | 14,835 | 9,031 |
| Continental Europe | (123) | 12,891 | (123) | 7,633 |
| **Group Total** | **79,816** | **91,477** | **14,712** | **16,664** |
| **Business analysis** | | | | |
| Specialist Distribution (excluding cash) | 45,069 | 55,926 | 12,638 | 16,067 |
| Managed Services (excluding cash) | 22,028 | 25,063 | (10,645) | (9,891) |
| | 67,097 | 80,989 | 1,993 | 6,176 |
| Cash | 12,719 | 10,488 | 12,719 | 10,488 |
| **Group Total** | **79,816** | **91,477** | **14,712** | **16,664** |

The segmental analysis above excludes net interest payable of £2,226,000 (2005: £2,181,000) which is not analysed by business segment.

# Notes to the financial statements (continued)

### 2 Exceptional costs of reorganisation

The exceptional costs of reorganisation for continuing operations of £2,387,000 (2005: £nil) relate to headcount reductions of £1,255,000, property related costs of £760,000 and fixed asset write-offs of £372,000. Reorganisation costs of £2,017,000 (2005: £nil) have been paid in the year. The corporation tax effect of these costs is a credit of £600,000.

The exceptional costs of reorganisation for discontinued operations of £3,104,000 (2005: £nil) relate to headcount reductions of £1,627,000, property related costs of £787,000, fixed asset write-offs of £357,000, provision for on-going support services of £206,000 and legal and professional fees of £127,000. Reorganisation costs of £784,000 (2005: £nil) have been paid in the year. The corporation tax effect of these costs is a credit of £43,000.

### 3 Loss on sale of European Operations

On 31 March 2006 the Group substantially ended its European operations by selling Allasso SAS, Allasso GmbH, Allasso Iberia SAU, Allasso Italia Srl and Allasso Benelux bv ('Allasso Europe') for provisional consideration of €7,573,000 (£5,285,000) and also repayment of inter-company debt of €22,700,000 (£15,800,000). Consideration may be subject to change dependent on collection of debtors and the valuation of stock and will be finalised on 31 March 2007. This resulted in a provisional loss on disposal of €5,246,000 (£3,661,000). As a result of the material change in the nature and focus of the Group's operations that this disposal represented, the European operations have been shown as discontinued operations in the financial statements. The corporation tax effect of this disposal is a charge of £62,000.

Cost of sales attributed to continuing operations were £174,524,000 and discontinued operations were £61,132,000. Net operating expenses attributed to continuing operations were £41,327,000 and discontinued operations were £13,971,000.

## 4 Net interest payable

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| Interest payable on bank loans and overdrafts | (76) | (42) |
| Interest payable on other loans | (1,935) | (1,942) |
| Amortisation of debt issue costs | (75) | (75) |
| Interest payable on finance leases | (232) | (282) |
| | (2,318) | (2,341) |
| Bank interest receivable | 92 | 160 |
| **Net interest payable** | **(2,226)** | **(2,181)** |

## 5 Loss on ordinary activities before taxation

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| Loss on ordinary activities before taxation is stated after charging / (crediting): | | |
| Staff costs (note 24) | 25,211 | 24,471 |
| Depreciation of owned tangible fixed assets (note 10) | 4,311 | 4,302 |
| Depreciation of leased tangible fixed assets (note 10) | 1,405 | 2,086 |
| Exceptional costs of reorganisation - fixed asset depreciation | 332 | - |
| Amortisation of goodwill (note 9) | 4,732 | 4,635 |
| Other operating lease rentals | 4,038 | 3,823 |
| Exceptional operating lease rentals | 1,180 | - |
| Auditors' remuneration - audit | 170 | 175 |
| Auditors' remuneration - tax compliance | 39 | 48 |
| Net exchange loss on foreign currency borrowings | 5 | 14 |
| Loss / (profit) on disposal of tangible fixed assets | 331 | (262) |

Auditors' remuneration includes £54,500 (2005: £49,000) in respect of audit services and £14,400 (2005: £22,000) in respect of tax compliance services provided to the Company.

# Notes to the financial statements (continued)

## 6 Tax on loss on ordinary activities

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Tax charge comprises: | | |
| United Kingdom corporation tax at 30% (2005: 30%) | | |
| Current | (600) | (952) |
| Over provision in respect of prior years | 207 | 265 |
| UK current tax | (393) | (687) |
| Overseas current tax | (62) | (337) |
| Overseas over provision in respect of prior years | 7 | 19 |
| Total current tax | (448) | (1,005) |
| Deferred tax current year - origination and reversal of timing differences | (47) | 256 |
| Deferred tax in respect of prior years | 946 | 639 |
| | **451** | **(110)** |

The tax charge is higher (2005: higher) than the standard rate of corporation tax in the UK. The differences are explained as follows:

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Loss on ordinary activities before taxation | (12,112) | (2,465) |
| At standard rate of corporation tax of 30% (2005: 30%) | (3,634) | (740) |
| Effects of: | | |
| Amortisation of goodwill | 1,409 | 1,391 |
| Expenses not deductible for tax purposes | 3 | 171 |
| Adjustment to tax charge in respect of previous periods | (214) | (284) |
| Capital allowances for year lower than depreciation | 489 | 255 |
| Other permanent differences | 473 | - |
| Overseas tax rates / losses not used | - | 100 |
| Deferred tax not recognised | 879 | - |
| Loss on sale of subsidiaries | 1,104 | - |
| Disallowable exceptional costs | 475 | - |
| Utilisation of losses | (536) | - |
| Other timing differences | - | 112 |
| | **448** | **1,005** |

At 31 March 2006, the Company had accumulated tax losses of £1,188,000 (2005: £2,973,000) which are available for offset against future trading profits of certain Group operations, subject to agreement with the relevant tax authorities.

## 7 Loss of the holding company

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented in these financial statements. The parent Company's loss for the year ended 31 March 2006 was £11,795,000 (2005: £2,388,000).

## 8 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of £11,661,000 (2005: £2,575,000) by the weighted average number of ordinary shares in issue during the year of 141,111,944 (2005: 139,575,879).

The adjusted basic earnings per share has been calculated to provide a better understanding of the underlying performance of the Group as follows:

| | 2006 Basic and diluted | | 2005 Basic and diluted | |
|---|---|---|---|---|
| | (Loss) / earnings £'000 | (Loss) / earnings per share pence | (Loss) / earnings £'000 | (Loss) / earnings per share pence |
| Loss attributable to ordinary shareholders | (11,661) | (8.26) | (2,575) | (1.84) |
| Amortisation of goodwill | 4,732 | 3.35 | 4,635 | 3.32 |
| Exceptional costs of reorganisation (note 2) | 4,848 | 3.44 | - | - |
| Loss on sale of subsidiary undertakings (note 3) | 3,723 | 2.64 | - | - |
| **Adjusted basic earnings per share** | **1,642** | **1.17** | **2,060** | **1.48** |

The loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of FRS 22 'Earnings per share'.

# Notes to the financial statements (continued)

## 9 Intangible fixed assets

| Group | Goodwill £'000 |
|---|---|
| **Cost** | |
| At 1 April 2005 | 174,795 |
| Disposals | (5,678) |
| Exchange difference on contingent consideration paid | 2 |
| **At 31 March 2006** | **169,119** |
| **Amortisation** | |
| At 1 April 2005 | 99,982 |
| Charge for the year | 4,732 |
| Disposals | (699) |
| **At 31 March 2006** | **104,015** |
| **Net book amount at 31 March 2006** | **65,104** |
| Net book amount at 31 March 2005 | 74,813 |

| Company | Goodwill £'000 |
|---|---|
| **Cost** | |
| **At 1 April 2005 and 31 March 2006** | **168,518** |
| **Amortisation** | |
| At 1 April 2005 | 97,950 |
| Charge for the year | 4,484 |
| **At 31 March 2006** | **102,434** |
| **Net book amount at 31 March 2006** | **66,084** |
| Net book amount at 31 March 2005 | 70,568 |

## 10 Tangible fixed assets

| Group | Freehold land & buildings £'000 | Leasehold improve-ments £'000 | Office fixtures & fittings £'000 | Vehicles & computer equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2005 | 3,850 | 1,739 | 2,354 | 28,701 | 36,644 |
| Additions | - | 174 | 31 | 2,528 | 2,733 |
| Disposals | - | (51) | (1,070) | (3,474) | (4,595) |
| Exchange adjustments | - | - | 9 | 19 | 28 |
| **At 31 March 2006** | **3,850** | **1,862** | **1,324** | **27,774** | **34,810** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2005 | - | 1,236 | 1,651 | 18,984 | 21,871 |
| Charge for the year | 211 | 348 | 343 | 5,146 | 6,048 |
| Disposals | - | (41) | (760) | (2,753) | (3,554) |
| Exchange adjustments | - | - | 2 | 19 | 21 |
| **At 31 March 2006** | **211** | **1,543** | **1,236** | **21,396** | **24,386** |
| **Net book amount at 31 March 2006** | **3,639** | **319** | **88** | **6,378** | **10,424** |
| Net book amount at 31 March 2005 | 3,850 | 503 | 703 | 9,717 | 14,773 |

# Notes to the financial statements (continued)

## 10 Tangible fixed assets (continued)

| Company | Freehold land & buildings £'000 | Leasehold improvements £'000 | Office fixtures & fittings £'000 | Vehicles & computer equipment £'000 | Total £'000 |
|---|---|---|---|---|---|
| **Cost or valuation** | | | | | |
| At 1 April 2005 | 3,850 | 1,739 | 1,726 | 27,060 | 34,375 |
| Additions | - | 174 | 31 | 2,319 | 2,524 |
| Disposals | - | (51) | (438) | (1,913) | (2,402) |
| **At 31 March 2006** | **3,850** | **1,862** | **1,319** | **27,466** | **34,497** |
| **Accumulated depreciation** | | | | | |
| At 1 April 2005 | - | 1,236 | 1,558 | 17,786 | 20,580 |
| Charge for the year | 211 | 348 | 94 | 4,847 | 5,500 |
| Disposals | - | (41) | (416) | (1,548) | (2,005) |
| **At 31 March 2006** | **211** | **1,543** | **1,236** | **21,085** | **24,075** |
| **Net book amount at 31 March 2006** | **3,639** | **319** | **83** | **6,381** | **10,422** |
| Net book amount at 31 March 2005 | 3,850 | 503 | 168 | 9,274 | 13,795 |

The net book amount of Group and Company tangible fixed assets includes an amount of £2,005,000 (2005: £2,864,000) in respect of assets held under finance leases.

## 10 Tangible fixed assets (continued)

Analysis of net book amount of freehold land & buildings

| | Group and Company 2006 £'000 | 2005 £'000 |
|---|---|---|
| Freehold land | 1,200 | 1,200 |
| Freehold buildings | 2,439 | 2,650 |
| | **3,639** | **3,850** |

The freehold land and buildings occupied by the Company were revalued by external valuers King Sturge LLP at 31 March 2005 on the basis of existing use value, in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the United Kingdom.

No deferred tax is provided on timing differences arising from the revaluation of fixed assets unless, by the balance sheet date, a binding commitment to sell the asset has been entered into and it is unlikely that any gain will be rolled over.

The assets that have been revalued comprise the following land and buildings:

| | Group and Company | | |
|---|---|---|---|
| | Freehold land £'000 | Freehold buildings £'000 | Total £'000 |
| **Net book value at 31 March 2006** | **1,200** | **2,439** | **3,639** |
| Historical cost: | | | |
| Cost | 339 | 2,416 | 2,755 |
| Accumulated depreciation | - | (762) | (762) |
| **Net book value** | **339** | **1,654** | **1,993** |

# Notes to the financial statements (continued)

## 11 Investments

| | Company £'000 |
|---|---|
| **Shares in group undertakings** | |
| At 1 April 2005 | 19,180 |
| Subsidiary undertakings: | |
| Capital restructure of Allasso GmbH and Allasso Benelux BV | 1,176 |
| Write down in carrying value of Allasso AG | (43) |
| Disposal of Allasso Europe | (13,264) |
| **At 31 March 2006** | **7,049** |

Investments in Group undertakings are stated at cost.

Details of the principal investments at 31 March 2006 in which the Group or Company holds more than 20% of the nominal value of ordinary share capital are as follows:

| Subsidiary undertakings | Country of incorporation or registration | Nature of business | Group proportion held | Company proportion held |
|---|---|---|---|---|
| Allasso AG | Switzerland | Sale of computer security products and ancillary services | 100% | 100% |
| Allasso Limited | England | Dormant | 100% | 100% |
| HOLF Technologies Limited | England | Dormant | 100% | 100% |
| VData Limited | England | Dormant | 100% | 100% |
| Integrated Technology (Europe) Limited | England | Dormant | 100% | 100% |

## 12 Stocks

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| **Goods for re-sale** | **6,622** | **13,179** | **6,622** | **12,597** |

## 13 Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| **Amounts falling due after more than one year:** | | | | |
| Amounts owed by Group undertakings | - | - | 1,455 | 1,455 |
| **Amounts falling due within one year:** | | | | |
| Trade debtors | 57,636 | 62,015 | 57,479 | 41,468 |
| Other debtors | 10,781 | 12,420 | 10,781 | 11,008 |
| Deferred tax asset (note 17) | 2,004 | 1,105 | 2,004 | 1,105 |
| Corporation tax | 380 | 576 | 380 | 155 |
| Prepayments and accrued income | 3,855 | 5,172 | 3,805 | 3,660 |
| Deferred cost of sales | 14,591 | 24,111 | 14,257 | 13,233 |
| Amounts owed by Group undertakings | - | - | 195 | 11,657 |
| | 89,247 | 105,399 | 88,901 | 82,286 |
| **Total** | **89,247** | **105,399** | **90,356** | **83,741** |

Amounts owed by Group undertakings are unsecured.

# Notes to the financial statements (continued)

### 14 Creditors – amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| Other borrowings (IBM) | 22,040 | 17,246 | 22,040 | 17,246 |
| Loan from Peter Wilkinson | 4,943 | 4,930 | 4,943 | 4,930 |
| Obligations under finance leases | 1,173 | 1,511 | 1,173 | 1,487 |
| Trade creditors | 42,932 | 52,139 | 42,840 | 47,163 |
| Other taxation and social security | 4,372 | 5,337 | 4,385 | 3,811 |
| Other creditors | 1,256 | 673 | 1,256 | 70 |
| Accruals | 6,466 | 4,744 | 6,513 | 3,343 |
| Deferred income | 17,103 | 29,300 | 16,728 | 16,408 |
| Contingent consideration | - | 2,294 | - | 2,294 |
| Amounts owed to Group undertakings | - | - | 909 | 3,414 |
| | **100,285** | **118,174** | **100,787** | **100,166** |

Borrowings comprise loans due within one year which were provided by IBM United Kingdom Financial Services Limited and Peter Wilkinson; and are secured by fixed and floating charges over the assets of the Company dated 23 July 2003 and 31 July 2003 respectively.

### 15 Creditors – amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| Other borrowings (IBM) | - | 573 | - | 573 |
| Loan from Peter Wilkinson | 3,707 | 7,395 | 3,707 | 7,395 |
| Obligations under finance leases | 308 | 1,033 | 308 | 1,033 |
| Amounts owed to Group undertakings | - | - | 8,510 | 8,510 |
| | **4,015** | **9,001** | **12,525** | **17,511** |

Amounts owed by Group undertakings are unsecured.

## 15 Creditors – amounts falling due after more than one year (continued)

Other borrowings and finance leases are repayable as follows:

| Other borrowings (IBM) | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| In one year or less | 22,040 | 17,246 | 22,040 | 17,246 |
| Between one and two years | - | 573 | - | 573 |
| | **22,040** | **17,819** | **22,040** | **17,819** |

| Loan from Peter Wilkinson | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| In one year or less | 5,000 | 5,000 | 5,000 | 5,000 |
| Between one and two years | 3,750 | 5,000 | 3,750 | 5,000 |
| Between two and five years | - | 2,500 | - | 2,500 |
| Unamortised debt issue costs | (100) | (175) | (100) | (175) |
| | **8,650** | **12,325** | **8,650** | **12,325** |

| Finance Leases | Group | | Company | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| In one year or less | 1,173 | 1,511 | 1,173 | 1,487 |
| Between one and two years | 266 | 957 | 266 | 957 |
| Between two and five years | 42 | 76 | 42 | 76 |
| | **1,481** | **2,544** | **1,481** | **2,520** |

## 16 Financial instruments

The main financial risks faced by the Group include interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks.

The Group's financial instruments comprise cash, liquid resources and various items, such as debtors and creditors that arise directly from its operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. The year end position reflects these policies and there have been no changes in policies or risks since the year end.

Although the Group has net debt of £19,452,000, £8,650,000 has been agreed at a fixed rate of interest of 8% thus reducing the levels of interest rate exposure. Group policy is to continue to monitor financial markets and to repay outstanding loans in line with agreed repayment schedules.

Financial asset returns are maximised by ongoing review of the Group's cash flow requirements. Any funds surplus to short-term working capital requirements are placed on interest bearing deposit.

# Notes to the financial statements (continued)

### 16 Financial instruments (continued)

Liquidity risk is further managed by agreeing separate borrowing facilities for any additional working capital and investment requirements. In accordance with this policy, the Group has negotiated a sterling invoice discounting facility of £24,496,000 (2005: £26,728,000) with IBM, of which £19,385,000 (2005: £14,953,000) was used as at 31 March 2006. This facility is provided on a rolling basis and is subject to 60 days notice by either party.

Short term trade debtors and creditors have been excluded from all the following disclosures with the exception of the Currency exposure analysis.

**Interest rate risk profile of financial assets**

The interest rate profile of the financial assets of the Group comprise cash of £12,719,000 as follows:

| Currency | Floating Rate | |
|---|---|---|
| | 2006 | 2005 |
| | £'000 | £'000 |
| Sterling | 11,593 | 8,242 |
| US dollar | 488 | 1,337 |
| Euro | 638 | 909 |
| | **12,719** | **10,488** |

The sterling, US dollar and euro financial assets relate to cash at bank and bear interest based on GBP LIBOR, US Dollar LIBOR and EURIBOR respectively. There are no fixed rate financial assets (2005: £nil).

**Interest rate risk profile of financial liabilities**

The interest rate profile of the financial liabilities of the Group is as follows:

| | Sterling | | Euro | | Total | |
|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Floating rate other borrowings (IBM) | 21,458 | 14,953 | 582 | 2,866 | 22,040 | 17,819 |
| Fixed rate loan from Peter Wilkinson | 8,650 | 12,325 | - | - | 8,650 | 12,325 |
| Fixed rate finance leases | 1,481 | 2,520 | - | 24 | 1,481 | 2,544 |
| Deferred shares | 480 | 480 | - | - | 480 | 480 |
| Contingent consideration (zero interest) | - | 50 | - | 2,244 | - | 2,294 |
| **Total** | **32,069** | **30,328** | **582** | **5,134** | **32,651** | **35,462** |
| Weighted average fixed interest rate | 8.67% | 8.85% | - | 3.37% | 8.67% | 8.85% |
| Weighted average period for which rate is fixed | 1.3 years | 2.1 years | - | 2.6 years | 1.3 years | 2.1 years |
| Weighted average period to maturity on which no interest is paid | - | 0.3 years | - | 0.3 years | - | 0.3 years |

### 16 Financial instruments (continued)

Deferred shares are excluded from the 'weighted average period to maturity on which no interest is paid' calculation as there is no specified maturity date.

Financial liabilities include secured loan arrangements with IBM and Peter Wilkinson and finance leases and are detailed in note 15. The floating rate sterling and Euro loans bear interest by reference to GBP LIBOR and EURIBOR respectively and are repayable as set out in note 15.

#### Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available as at 31 March, in respect of which all conditions have been met at that date, were as follows:

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| **Expiring within one year** | **5,111** | **11,774** |

#### Non-equity shares

A proportion of the Group's share capital is attributable to non-equity interests, in the form of deferred shares of 1p each. The rights and restrictions attaching to the deferred shares are described in note 18 to the financial statements.

#### Fair value

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than by a forced or liquidation sale, and excludes accrued interest. The fair values of financial assets and liabilities as at 31 March 2006 approximate to the book value at those dates based on comparison with similar instruments available from alternative providers.

#### Currency exposure

The Group seeks to mitigate the effects of the currency exposures arising from its net investments overseas by borrowing as far as possible in the same currencies as the operating currencies of its main operating units. Gains and losses arising on net investments overseas and the financial instruments used to hedge the currency exposures are recognised in the statement of total recognised gains and losses.

The table below shows the extent to which group companies have monetary assets and liabilities in currencies other than their local currency. Foreign exchange differences on translation of earnings are taken to the profit and loss account of the Group.

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| Functional currency of operation: Sterling | | |
| US dollar (liabilities) / assets (net) | (2,795) | 5,199 |
| Euro assets (net) | 20,788 | 219 |
| | **17,993** | **5,418** |
| Functional currency of operation: Euro | | |
| US dollar liabilities (net) | (89) | (12,722) |
| Sterling assets (net) | - | 8 |
| | **(89)** | **(12,714)** |

#### Hedges

With the exception of the hedging loan explained above the Group does not operate any hedging instruments.

# Notes to the financial statements (continued)

## 17 Deferred tax asset

| | Group and Company £'000 |
|---|---|
| At 1 April 2005 | 1,105 |
| Credited to the profit and loss account (note 6) | 899 |
| **At 31 March 2006** | **2,004** |

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet dates.

The deferred tax asset is included in debtors and is analysed as follows:

| Group | Amount recognised | | Amount not recognised | |
|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| Depreciation in excess of capital allowances | 1,424 | 969 | - | - |
| Short term timing differences | 215 | 136 | - | - |
| Pensions | 9 | - | - | - |
| Losses carried forward | 356 | - | - | 1,021 |
| | **2,004** | **1,105** | **-** | **1,021** |

| Company | Amount recognised | | Amount not recognised | |
|---|---|---|---|---|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| Depreciation in excess of capital allowances | 1,424 | 969 | - | - |
| Short term timing differences | 215 | 136 | - | - |
| Pensions | 9 | - | - | - |
| Losses carried forward | 356 | - | - | 892 |
| | **2,004** | **1,105** | **-** | **892** |

No provision has been made for deferred tax on revalued property. The tax on the gains arising would only become payable if the property were sold without rollover relief being available. The tax which would be payable under such circumstances is estimated to be £526,000 (2005: £526,000). These assets are expected to be used in the continuing operations of the business and, therefore, no tax is expected to be paid in the foreseeable future.

## 18 Called up share capital

| | Company | |
|---|---|---|
| | 2006 | 2005 |
| | £'000 | £'000 |
| **Authorised** | | |
| 252,000,000 Ordinary shares of 1p each | 2,520 | 2,520 |
| 48,000,000 Deferred shares of 1p each | 480 | 480 |
| **Total** | **3,000** | **3,000** |

| | 2006 | 2005 |
|---|---|---|
| | £'000 | £'000 |
| **Allotted, called up and fully paid** | | |
| 141,111,944 (2005: 141,111,944) Ordinary shares of 1p each | 1,411 | 1,411 |
| 48,000,000 Deferred shares of 1p each | 480 | 480 |
| **Total** | **1,891** | **1,891** |

Deferred shares differ to ordinary shares in that they do not entitle the holder to receive any dividend or other distribution; do not entitle the holder to vote at any general meeting of the Company; do entitle the holder on a winding up to repayment of amounts paid only after payment in respect of each Ordinary Share of the capital paid up and a further payment of £10,000 on each Ordinary Share and are treated as non-equity shares.

# Notes to the financial statements (continued)

## 18 Called up share capital (continued)

**Share options**

Certain employees hold options to subscribe for shares in the Company at prices ranging from 1.8p to 337.5p under the share option schemes.

The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are as follows:

| Name of scheme | No. of shares 2006 | 2005 | Exercise price (p) | Earliest exercise date | Expiry date |
|---|---|---|---|---|---|
| HOLF scheme | 7,078,373 | 7,078,373 | 43.3 | 23/12/02 | 23/12/09 |
| VData scheme | 3,135,917 | 3,135,917 | 1.8 | 07/01/03 | 07/01/10 |
| InTechnology scheme | 1,613,463 | 1,613,463 | 50.5 | 19/07/05 | 19/07/12 |
| InTechnology scheme | 1,150,000 | 1,150,000 | 52.0 | 04/07/05 | 04/07/12 |
| InTechnology scheme | 1,578,000 | 1,578,000 | 61.0 | 01/08/06 | 01/08/13 |
| InTechnology scheme | 517,500 | 517,500 | 65.0 | 15/07/03-11/06/05 | 15/07/06-11/06/12 |
| InTechnology scheme | 600,000 | 600,000 | 150.0 | 01/09/03-09/10/03 | 01/09/10-09/10/10 |
| InTechnology scheme | 304,000 | 304,000 | 172.0 | 15/03/04-20/12/04 | 15/03/11-20/12/11 |
| InTechnology scheme | 570,000 | 570,000 | 279.0 | 15/03/04-01/05/04 | 15/03/11-01/05/11 |
| InTechnology scheme | 50,000 | 50,000 | 327.5 | 02/01/04 | 02/01/11 |
| InTechnology scheme | 50,000 | 50,000 | 337.5 | 01/11/03 | 01/11/10 |
| InTechnology SAYE scheme | 1,575,882 | - | 50.0 | 01/04/08 | 01/10/08 |
| InTechnology scheme | 70,000 | - | 46.0 | 21/06/08 | 21/06/15 |
| | **18,293,135** | **16,647,253** | | | |

Further details of the share option schemes in operation are given under the heading 'Interests in share options' in the Remuneration Report on pages 22 to 25.

## 19 Shareholders' funds

| Group | Ordinary share capital £'000 | Deferred shares £'000 | Share premium account £'000 | Revaluation reserve £'000 | Profit & loss account £'000 | Total shareholders' funds £'000 |
|---|---|---|---|---|---|---|
| At 1 April 2005 | 1,411 | 480 | 188,668 | 1,754 | (100,836) | 91,477 |
| Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | - | - | - | (108) | 108 | - |
| Loss sustained for the year | - | - | - | - | (11,661) | (11,661) |
| **At 31 March 2006** | **1,411** | **480** | **188,668** | **1,646** | **(112,389)** | **79,816** |

| Company | Ordinary share capital £'000 | Deferred shares £'000 | Share premium account £'000 | Revaluation reserve £'000 | Profit & loss account £'000 | Total shareholders' funds £'000 |
|---|---|---|---|---|---|---|
| At 1 April 2005 | 1,411 | 480 | 188,668 | 1,754 | (100,636) | 91,677 |
| Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount | - | - | - | (108) | 108 | - |
| Loss sustained for the year | - | - | - | - | (11,795) | (11,795) |
| **At 31 March 2006** | **1,411** | **480** | **188,668** | **1,646** | **(112,323)** | **79,882** |

# Notes to the financial statements (continued)

## 20 Reconciliation of operating loss to net cash inflow / (outflow) from operating activities

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| Operating loss | (6,225) | (284) |
| Depreciation of tangible fixed assets | 5,716 | 6,388 |
| Goodwill amortisation | 4,732 | 4,635 |
| Exceptional costs of reorganisation - fixed asset depreciation | 332 | - |
| Loss / (profit) on disposal of tangible fixed assets | 331 | (262) |
| Exchange movements | 5 | 14 |
| Decrease / (increase) in stocks | 5,227 | (2,368) |
| Increase in debtors | (2,844) | (12,901) |
| Increase in creditors and provisions | 3,393 | 2,778 |
| **Net cash inflow / (outflow) from operating activities** | **10,667** | **(2,000)** |

## 21 Reconciliation of movement in net debt

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| Increase / (decrease) in cash in the year | 2,227 | (5,935) |
| Net cash outflow from decrease in finance leases | 1,706 | 1,991 |
| Net cash inflow from advance of debt | (431) | (6,615) |
| Change in net debt resulting from cash flows | 3,502 | (10,559) |
| Non-cash changes: | | |
| Exchange movements | (36) | (91) |
| Inception of new finance leases | (656) | (1,070) |
| Finance leases on disposal | 13 | - |
| Debt issue costs | (75) | (75) |
| Movement in net debt in the year | 2,748 | (11,795) |
| Net debt at start of year | (22,200) | (10,405) |
| **Net debt at end of year** | **(19,452)** | **(22,200)** |

# Notes to the financial statements (continued)

## 22 Analysis of net debt

| | At 1 April 2005 £'000 | Cashflow £'000 | Disposals £'000 | Exchange movements £'000 | Other non-cash changes £'000 | At 31 March 2006 £'000 |
|---|---|---|---|---|---|---|
| Cash at bank and in hand | 10,488 | 2,227 | - | 4 | - | 12,719 |
| Finance leases | (2,544) | 1,706 | 13 | - | (656) | (1,481) |
| Debt due after more than one year | (7,968) | 4,252 | - | (8) | - | (3,724) |
| Debt due within one year | (22,176) | (4,683) | - | (32) | (75) | (26,966) |
| **Net debt** | **(22,200)** | **3,502** | **13** | **(36)** | **(731)** | **(19,452)** |

## 23 Directors' emoluments

A detailed analysis of Directors' individual emoluments, together with information on pensions, including that of the highest paid Director, is given in the Remuneration report on page 24.

| | 2006 £'000 | 2005 £'000 |
|---|---|---|
| Aggregate emoluments | 1,103 | 1,351 |
| Company contributions to defined contribution pension schemes | 64 | 60 |
| Compensation paid to past director for loss of office | 187 | - |
| Sums paid to third parties for directors' services | 110 | 110 |
| | **1,464** | **1,521** |

During the year, retirement benefits were accruing to seven (2005: seven) Executive Directors under defined contribution pension schemes.

## 24 Employee information

The average monthly number of persons (including Executive Directors) employed by the Group during the year was:

| By category | 2006<br>Number | 2005<br>Number |
|---|---|---|
| Sales | 208 | 202 |
| Technical | 109 | 102 |
| Operations | 103 | 115 |
| Administration | 95 | 91 |
| | **515** | **510** |

Staff costs for the persons above were:

| | 2006<br>£'000 | 2005<br>£'000 |
|---|---|---|
| Wages and salaries | 21,420 | 20,811 |
| Social security costs | 3,448 | 3,350 |
| Pension costs | 343 | 310 |
| | **25,211** | **24,471** |

## 25 Financial commitments

At 31 March 2006, the Group had annual commitments under non-cancellable operating leases as follows:

| | Land & buildings | | Other assets | |
|---|---|---|---|---|
| | 2006<br>£'000 | 2005<br>£'000 | 2006<br>£'000 | 2005<br>£'000 |
| Expiring within one year | - | 305 | 187 | 244 |
| Expiring within one to two years | 217 | 265 | 37 | 74 |
| Expiring within two to five years | 1,943 | 1,501 | - | 173 |
| Expiring after five years | 1,110 | 1,296 | - | - |
| | **3,270** | **3,367** | **224** | **491** |

# Notes to the financial statements (continued)

### 26 Related party transactions

The Company has taken advantage of the exemption available under FRS 8 'Related Party Disclosures' from disclosing transactions between the Company and its subsidiary undertakings as these have been eliminated on consolidation of these financial statements.

Peter Wilkinson, the Chief Executive Officer of the Group, made a loan of £15,000,000 to InTechnology repayable over a 4 year period commencing 31 July 2003. The outstanding loan accrues interest at a fixed rate of 8% per annum. Arrangement fees of £300,000 paid to Peter Wilkinson in respect of the loan have been capitalised and will be amortised to the profit and loss account over the period of the loan in accordance with FRS 4. The loan outstanding at 31 March 2006 was £8,750,000 (2005: £12,500,000) and related interested payments in the year were £851,000 (2005: £1,152,000).

Peter Wilkinson is a shareholder in the ultimate parent company of Planetfootball.com Limited, BSkyB. InTechnology has sold services totalling £233,000 (2005: £190,000) to Planetfootball.com Limited in the year. As at 31 March 2006, InTechnology was owed £nil (2005: £20,000) by Planetfootball.com Limited.

Peter Wilkinson is a non-Executive Director of, Richard James is a Director of and Peter Wilkinson, Richard James and John Swingewood are shareholders in The New Gadget Shop Limited. InTechnology has sold services totalling £34,000 (2005: £100,000) to The New Gadget Shop Limited in the year. As at 31 March 2006, InTechnology was owed £20,000 (2005: £18,000) by The New Gadget Shop Limited.

John Swingewood is a Director of and Peter Wilkinson and John Swingewood hold beneficial interests in shares in YooMedia plc. InTechnology has sold services totalling £628,000 (2005: £697,000) to YooMedia plc in the year. As at 31 March 2006, InTechnology was owed £661,000 (2005: £165,000) by YooMedia plc.

Peter Wilkinson is a non-Executive Director and shareholder in and John Swingewood is a Director and shareholder in Voicescape plc. InTechnology has sold services totalling £2,500 (2005: £1,000) to Voicescape plc in the year. As at 31 March 2006, InTechnology was owed £250 (2005: £nil) by Voicescape plc.

Richard James and John Swingewood are Directors and shareholders in Eescape Holdings Ltd. InTechnology has sold services totalling £455,000 (2005: £329,000) to Eescape Holdings Ltd in the year. As at 31 March 2006, InTechnology was owed £108,000 (2005: £86,000) by Eescape Holdings Ltd.

John Swingewood is a Director of and Peter Wilkinson, John Swingewood and Richard James are shareholders in Mobile Tornado Limited. InTechnology has sold services totalling £2,500 (2005: £nil) to Mobile Tornado Limited in the year. As at 31 March 2006, InTechnology was owed £1,000 (2005: £nil) by Mobile Tornado Limited.

The Company has maintained a current account at various stages during the year with Andrew Kaberry. The maximum amount owed to the Company under this arrangement was £206,072 (2005: £11,917). This amount was fully repaid during the year and there was no amount outstanding in respect of this loan as at 31 March 2006.

Included within other debtors are amounts owing from members of the Company's management team; £10,000 (2005: £10,000) from Mark Chippendale, £10,000 (2005: £10,000) from Natalie Duffield and £20,750 (2005: £20,750) from John Arnold.

All transactions with related parties were carried out on an arm's length basis.

### 27 Ultimate controlling party

The Directors consider Peter Wilkinson to be the ultimate controlling party by virtue of his shareholding in the Company.

# Notice of Annual General Meeting

The Directors hereby give notice that the Company will hold its Annual General Meeting at Nidderdale House, Beckwith Knowle, Otley Road, Harrogate, HG3 1SA at 11 a.m. on 8 August 2006 (the '**AGM**') for the following purposes:

## Ordinary business:

**Resolution 1** To receive and adopt the report of the Directors, the report of the independent auditors of the Company and the financial statements of the Company for the year ended 31 March 2006.

**Resolution 2** To re-appoint Steve Pearce as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association and who, being eligible, offers himself for re-appointment as a Director.

**Resolution 3** To re-appoint Bryn Sage as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association and who, being eligible, offers himself for re-appointment as a Director.

**Resolution 4** To re-appoint Jason Firth as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association and who, being eligible, offers himself for re-appointment as a Director.

**Resolution 5** To re-appoint Mark Lower as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association and who, being eligible, offers himself for re-appointment as a Director.

**Resolution 6** To re-appoint the Rt. Hon. Lord Parkinson (aged 74) as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association and who, being eligible, offers himself for re-appointment as a Director.

## Special business

To consider and, if thought fit, to pass the following Resolutions. The Directors will propose Resolutions 7 and 9 as ordinary resolutions and Resolution 8 as a special resolution.

**Resolution 7** That the Directors be and are generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the '**Act**') to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £653,304.50, provided that such authority is for a period expiring 5 years from the date of this Resolution 7, and save that the Company may before such expiry make an offer or agreement which would or might require the Directors to allot relevant securities after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority which this Resolution 7 confers had not expired. The authority which this Resolution 7 confers shall be in substitution to all subsisting authorisations under section 80 of the Act (to the extent unused) which are hereby revoked.

**Resolution 8** That, subject to the passing of Resolution 7, the Directors be and are empowered, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority which Resolution 7 confers as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(a) in connection with or the subject of an offer or invitation, including a rights issue or open or equivalent offer to holders of ordinary shares and such other equity securities of the Company as the Directors may determine on the register on a fixed record date in proportion (as near as maybe) to the respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of, or the requirements of, any recognised regulatory body or any stock exchange in any territory; and

(b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £70,555.97,

and shall expire 5 years from the date of this Resolution 8, save that the Company may before such expiry make an offer or agreement which would or might require the Directors to allot equity securities after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power which this Resolution 8 confers had not expired.

**Resolution 9** In accordance with Sections 739 and 388(3) of the Act that PricewaterhouseCoopers LLP be re-appointed auditors of the Company and hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that, pursuant with section 390A of the Act, their remuneration be fixed by the Directors.

5 July 2006
By order of the Board

Richard James
*Director and Company Secretary*
for and on behalf of InTechnology plc

Registered Office:
Nidderdale House
Beckwith Knowle
Otley Road
Harrogate HG3 1SA

# Notice of Annual General Meeting (continued)

## Notes:

1. A member of the Company (a '**Shareholder**') entitled to attend and vote at the AGM may appoint one or more proxy (or proxies) to attend (and on a poll) vote in his stead. Any person (whether a Shareholder or not) may be appointed to act as a proxy.

2. If a proxy is appointed for use at the AGM, the form of proxy as issued by the Board must be used. This form of proxy is enclosed herewith reply-paid. All forms of proxy, together with the power of attorney or other authority (if any) under which it is executed, or a notarially certified copy of such power or authority, must be deposited at the Company's registrars at the following address by no later than 11a.m. on 4 August 2006 or any adjournment thereof: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.

3. Completion and return of a form of proxy will not preclude a Shareholder from attending and voting at the AGM in person in respect of which the proxy is appointed (or at any adjournment of the AGM) if such Shareholder subsequently decides to do so.

4. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (2001 S.I. No. 3755), specifies that only those Shareholders registered on the register of members of the Company at 11 a.m. on 7 August 2006 (or, if the AGM is adjourned, in the register of members of the Company 48 hours before the time of any adjourned AGM) shall be entitled to attend and vote at the AGM in respect of the number of shares in the Company registered in the name of such Shareholders at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

5. Pursuant to sections 324 and 325 and paragraph 29, Part IV, Schedule 13 to the Act, the register of Directors' interests in the Company and a copy of the service agreements between the Company and its Directors will be available to the public for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice to the time and date of the AGM (including any adjornment thereof) and also on the date and at the place of the AGM from 15 minutes before the AGM to its conclusion.

6. Pursuant to rule 20 of the AIM rules this Notice, the accompanying Form of proxy and the annual audited accounts will be available for inspection, free of charge, at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) for a period of one month from the date of this Notice.

7. Biographical details of the Directors who are proposed for reappointment at the AGM are set out on pages 13 and 14 of the Annual Report and Financial Statements of the Company for the year ending 31 March 2006.

# Form of proxy for InTechnology plc

(Incorporated and registered in England and Wales under number 03916586) (the '**Company**')

For use by holders of ordinary shares of 1p each in the Company (the '**Shareholders**') at the annual general meeting of the Company to be held at the Company's registered office at Nidderdale House, Beckwith Knowle, Otley Road, Harrogate, HG3 1SA at 11am on Tuesday 8 August 2006 (the '**AGM**'). **Please read the Notice of AGM and the notes to this Proxy Form.**

**I/We*,** (please insert the name of the Shareholder(s)* in full in BLOCK CAPITALS)

**of**

(please insert the full postal address of the Shareholder(s)* in full in BLOCK CAPITALS)

**being Shareholder(s)* entitled to attend and vote at meetings of Shareholders, hereby appoint the Chairman of the AGM†**

**as my/our* proxy attend and, on a poll, to vote for me/us* on my/our* behalf at the AGM, and at any adjournment thereof.**

†If it is desired to appoint some other person to be your proxy: (i) delete 'the Chairman of the AGM'; (ii) initial the alteration; and (iii) insert the full name, title and address of the person you wish to appoint as your proxy IN BLOCK CAPITALS. * Delete as appropriate.

Please indicate with an 'X' in the appropriate space how you wish your proxy to vote on the resolutions set out in the Notice or whether you wish the vote to be withheld. (See note 6).

| | | For | Against | Vote Withheld |
|---|---|---|---|---|
| 1. | Receipt and adoption of Directors' report and financial statements and independent auditors' report. | | | |
| 2. | Re-appointment of Steve Pearce. | | | |
| 3. | Re-appointment of Bryn Sage. | | | |
| 4. | Re-appointment of Jason Firth. | | | |
| 5. | Re-appointment of Mark Lower. | | | |
| 6. | Re-appointment of the Rt. Hon. Lord Parkinson (aged 74). | | | |
| 7. | Ordinary Resolution - That the Directors are authorised to allot relevant securities. | | | |
| 8. | Special Resolution - That statutory pre-emption provisions are disapplied and the Directors are authorised to allot relevant securities for cash. | | | |
| 9. | Ordinary Resolution - That PricewaterhouseCoopers LLP be reappointed auditors of the Company, to hold office until the conclusion of the next general meeting at which the accounts are laid before the Company and that their remuneration be fixed by the Directors. | | | |

Dated ______________________ 2006

Signature ______________________ (see note 4 below) For and on behalf of the above named Shareholder(s)

Notes:

1 **Who can be a proxy?** Any person (whether a Shareholder or not) may be appointed to act as a proxy.

2 **Joint Shareholders:** In the case of joint Shareholders the vote of the senior who tenders a vote whether in person or by proxy will be accepted to the exclusion of the votes of the other joint Shareholders. For this purpose seniority is determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

3 **Corporate Shareholders:** To be valid in the case of a Shareholder that is a corporation, this proxy form must be executed under that corporate Shareholder's common seal or be signed on its behalf by an attorney or officer duly authorised.

4 **What is required for the proxy to be effective:** To be effective, this proxy form must be: (a) duly executed; (b) deposited at the Company's registrars at the following address: Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU **by no later than 11 a.m. on 4 August 2006** or any adjournment thereof; and (c) deposited together, if appropriate, with the power of attorney or other authority (if any) under which it is executed or a notarially certified copy of such power or, where the form has been signed by an officer on behalf of a corporation, a notarially certified copy of the authority under which it is signed.

5 **Alterations:** Any alterations made in or to this proxy form should be initialled by the relevant Shareholder(s).

6 **Proxy's discretion:** In the absence of any directions your proxy may vote or abstain as the proxy thinks fit. On any motion to amend the resolution, to propose a new resolution, to adjourn the AGM, or on any other motion put to the AGM, the proxy will act at his/her/their discretion. Please note that if the 'Vote Withheld' box is marked with an 'X', the Shareholder will not be counted in the calculation of votes 'For' and 'Against' and the Shareholder will not be taken to have given his/her/their discretion to the proxy on how to vote.

7 **Multiple proxies:** A Shareholder may appoint more than one proxy to attend. When two or more valid but differing instruments of proxy are delivered in respect of the same share for use at the same meeting and in respect of the same matter, the one which is last validly delivered (regardless of the date of its execution) shall be treated as replacing and revoking the other or others as regards that share. If the Company is unable to determine which instrument was last validly delivered, none of them shall be treated as valid in respect of that share.

8 **Shareholder attendance at the AGM:** The completion and return of this proxy form will not prevent you from attending in person and voting at the AGM or at any adjournment thereof should you subsequently decide to do so.

9 **Record date:** As provided by Regulation 41 of the Uncertificated Securities Regulations 2001, only those members of the Company registered in the register of members of the Company 24 hours before the time set for the AGM (i.e. 11 a.m. on 7 August 2006) shall be entitled to attend and vote at the AGM in respect of the number of shares registered in their name at that time (or if the AGM is adjourned 48 hours before such adjourned AGM). Changes to entries on the relevant register of members of the Company after that time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

10 **Register of Directors' interests and Director's service agreements:** Pursuant to sections 324 and 325 and paragraph 29, Part IV, Schedule 13 to the Act, the register of Directors' interests in the Company and a copy of the service agreements between the Company and its Directors will be available to the public for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice to the time and date of the AGM (including any adjournment thereof) and also on the date and at the place of the AGM from 15 minutes before the AGM to its conclusion.

11 **Inspection of Shareholder documents:** Pursuant to rule 20 of the AIM rules this Form of proxy, the accompanying Notice of the AGM and the annual audited accounts will be available for inspection, free of charge, at the registered office of the Company during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) for a period of one month from the date of the Notice.

12 **Definitions:** Unless otherwise defined herein, capitalised terms shall have the meaning ascribed to such terms in the notice of annual general meeting sent to Shareholders and enclosed with this document.

Third Fold and Tuck in

BUSINESS REPLY SERVICE
License No. MB122

1

First Fold

Capita Registrars
Proxy Department
PO Box 25
Beckenham
Kent
BR3 4BR

Second Fold

# Corporate information

## Board of Directors:

| | |
|---|---|
| The Rt. Hon. Lord Parkinson | Non-Executive Chairman |
| Joe McNally | Non-Executive Director |
| Charles Scott | Non-Executive Director |
| Peter Wilkinson | Chief Executive Office |
| Richard James | Director & Company Secretary |
| Andrew Kaberry | Finance Director |
| Steve Pearce | Chief Operating Officer and Business Development Director |
| Bryn Sage | Sales Director |
| Jason Firth | Director of Professional Services |
| Mark Lower | Managing Director of Managed Voice Services (effective 23 May 2006) |

## Registered office:

InTechnology plc
Nidderdale House
Beckwith Knowle
Harrogate
HG3 1SA
Tel +44 (0)1423 850 000
Fax +44 (0)1423 858 855

## Registrar and transfer office:

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent
BR3 4TU

## Principal bankers:

Barclays Bank plc
Parliament Street
York
YO1 1XD

## Nominated adviser and broker:

Panmure Gordon & Co. plc
155 Moorgate
London
EC2M 6XB

## Independent auditors:

PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds
LS1 4JP

## Solicitors:

Norton Rose
Kempson House
Camomile Street
London
EC3A 7AN

## Company registration number:

3916586

## Internet addresses:

www.intechnology.co.uk
www.allasso.com

# Corporate information (continued)

### Headquarters

InTechnology plc
Nidderdale House
Beckwith Knowle
Harrogate
HG3 1SA
Tel +44 (0) 1423 850 000
Fax +44 (0) 1423 858 855

### Northern Data Centre

InTechnology plc
Central House
Beckwith Knowle
Harrogate
HG3 1UG

### Southern Data Centre

InTechnology plc
260-266 Goswell Road
Islington
London
EC1V 7EB

### London Office

1 Threadneedle Street
London
EC2R 8AW

### InTechnology Security (UK)

Building 1320
Arlington Business Park
Theale
Reading
RG7 4SA
Tel +44 (0) 1189 711 511
Fax +44 (0) 1189 711 522


InTechnology