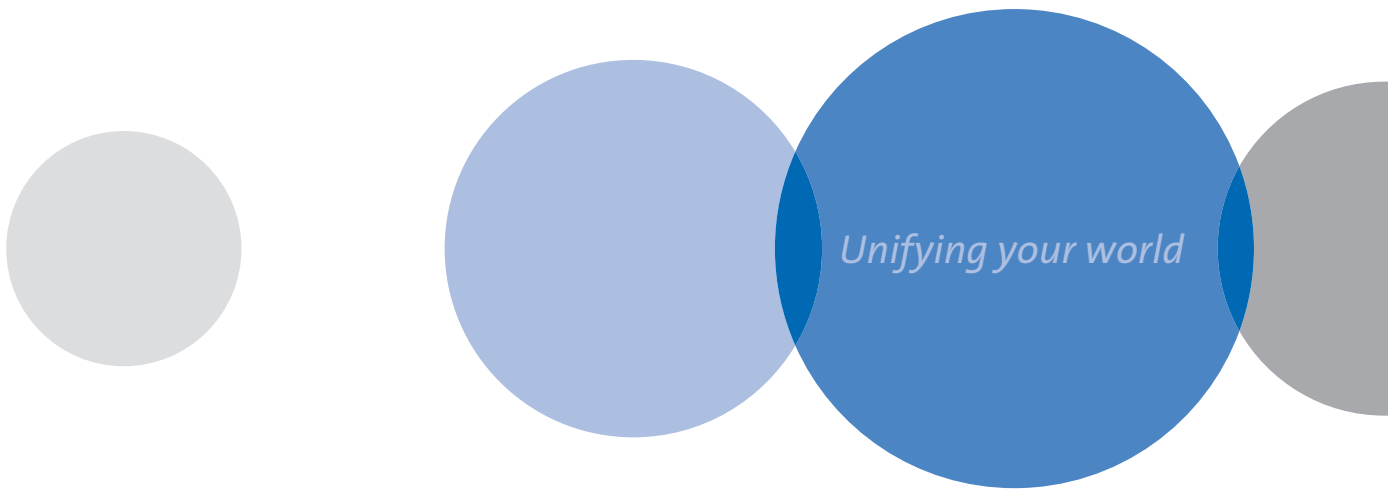


# inTechnology

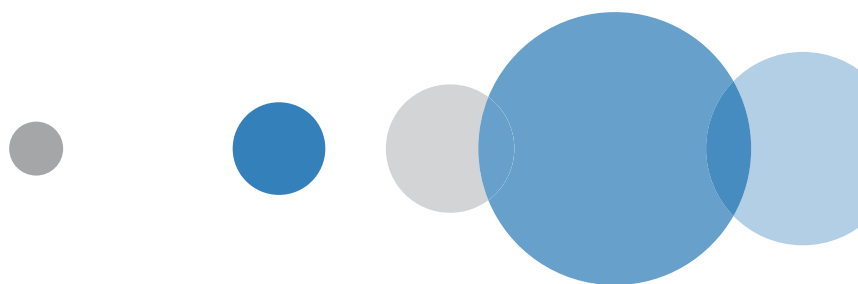
Annual report and financial statements 2008



*Unifying your world*



# Contents



|  | Page |
|--|------|
| Highlights   | 2    |
| Chairman's introduction  | 3    |
| Chief Executive Officer's report                                   | 5    |
| Management team  | 10   |
| Directors' report  | 12   |
| Corporate governance   | 16   |
| Remuneration report  | 21   |
| Independent auditors' report                                       | 26   |
| Consolidated income statement                                      | 28   |
| Group and company statements of changes<br>in shareholders' equity | 29   |
| Balance sheets   | 31   |
| Group and company cash flow statements                             | 32   |
| Notes to the financial statements                                  | 33   |
| Notice of Annual General Meeting                                   | 75   |
| Form of proxy for InTechnology plc                                 | 81   |
| Corporate information  | 83   |

# Highlights for the year ended 31 March 2008



Intelligent

Business

Strategies

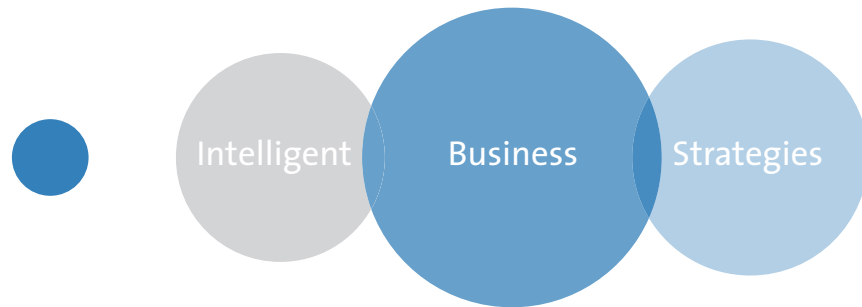
## Operational Highlights

- First full year as a Managed Services business – data and voice products.
- Full integration of Evoxus business acquired in January 2007.
- Further investment of £2.4m in Mobile Tornado Group plc, an AIM listed company, increases our equity holding to 49.9 per cent and £1.5m of convertible redeemable preference shares.
- Continued development and commercial launch of new data and voice products including the first managed service Push-To-Talk for mobile phones.
- Delisted from AIM on 1 February 2008. A matched bargain exchange on Sharemark has commenced. InTechnology remains a public company with 574 shareholders.
- A Court approved share buy back at 35 pence per share in January 2008 reduced the issued number of ordinary shares by 10,575,821 to 131,828,622.

## Financial Highlights

- Managed Services turnover increased by 38 per cent to £45.4m (2007: £32.9m).
- Group operating profit £3.5m (2007: £1.4m).
- Group operating profit includes £1.1m profit on the sale of freehold property (2007: nil).
- Share of Mobile Tornado Group plc losses £1.5m (2007: £0.7m for 5 months).
- Group profit after tax £1.9m (2007: £14.2m loss including discontinued operations loss of £13.8m).
- Net cash £9.2m (2007: £10.3m) and unutilised bank facilities in place for financing of major capital expenditure projects.

# Chairman's introduction



I am pleased to report the progress that your company is making in growing our Managed Services businesses. Management focus is entirely on expanding the data and voice services which continue to demonstrate their ability to earn higher margins from their recurring revenues than the Distribution businesses disposed of during the past two years.

During October 2007 your company made a further £2.4m investment in Mobile Tornado Group plc ("MTG"), a company listed on AIM, bringing our total investment to £6.4m and increasing our equity holding to 49.9 per cent. In addition, we received £1.5m of convertible

redeemable preference shares. MTG has developed proprietary systems for Push-To-Talk ("PTT"); technology which our company has an exclusive right to market in the UK as a managed voice services product. This is an exciting growth sector of the mobile phone market, but it is difficult in the early stages of a product launch accurately to forecast short term revenues. Even so, your management feel confident of the medium term prospects for this technology.

Your Board also considered the lack of liquidity in the Company's shares and noted that even as the Company transformed its balance sheet and business profile following the disposal

of the Distribution businesses the share price reduced. The decision was therefore taken to delist from AIM and, after obtaining Court consent, to buy back any shares through a Tender Offer. From 1 February 2008 we delisted from AIM and the share capital was reduced by 10,575,821 to 131,828,622 ordinary shares, a reduction of 7.4 per cent. There are still 574 shareholders and for any sale or purchase of InTechnology shares a matched bargain exchange has been arranged on Sharemark. We shall continue to closely monitor transactions and consider whether the company should offer to buy back further shares after obtaining necessary shareholder consent.

# Chairman's introduction continued



Our Group turnover from the continuing Managed Services businesses increased from £32.9m to £45.4m. Group operating profit increased from £1.4m to £3.5m, which includes £1.1m profit from the sale of our Harrogate freehold property.

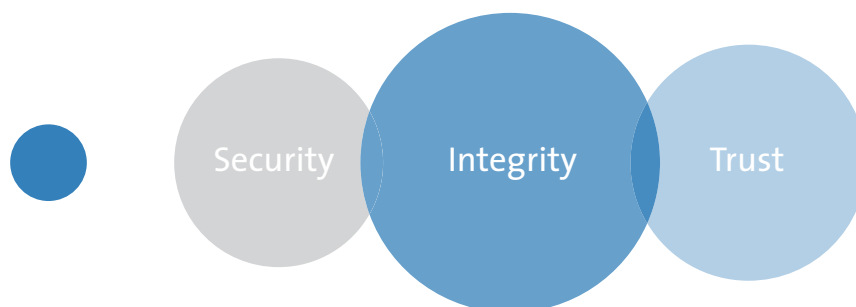
Our share of MTG losses was £1.5m compared to £0.7m for 2007 (5 months only). Group profit after tax was £1.9m compared to last year's loss of £14.2m, which was impacted by the loss on disposal of the Distribution businesses of £13.8m. Net cash is £9.2m (2007: £10.3m) and we have unutilised medium term bank facilities for financing large capital expenditure projects in our data centres.

I would like to thank the staff whose continued loyalty, energy and professional skills keep pace with the further development of our Managed Services businesses, and also our partners in all areas of the business.

Your Board believes it is well positioned to continue to grow revenues and profits with its Managed Services businesses. Despite the uncertain national economic background I look forward to a successful year ahead.

**Lord Parkinson**  
Chairman  
17 June 2008

# Chief Executive Officer's report



## Overview

I am pleased to report good progress and profitability in this first year as a Managed Services business following the disposal of all Distribution businesses in the previous year. We successfully integrated the Evoxus business acquired in January 2007 to become our Managed Voice Services division.

Further investment was made during the year in Mobile Tornado Group plc, an AIM listed company, increasing our equity holding to 49.9 per cent. Our freehold property in Harrogate was sold enhancing our net cash position which in today's "credit crunch" environment is a very good position to be in.

Finally, and as I announced our intentions in October 2007, we delisted from AIM on 1 February 2008 and by a Tender Offer bought and then cancelled 10.6m ordinary shares. Our Chairman's introduction discusses this and all I wish to add is that there was no point in being a paying member of a club and not using the facilities.

## Adoption of IFRS accounting standards

As announced in our unaudited interim information we have adopted International Financial Reporting Standards (IFRS) and a reconciliation from UK GAAP to IFRS is available in note 27.

Other than the reporting formats the main changes to this year's Report and Financial Statements as a result of adoption of IFRS relate to deferred taxation and the valuation of intangible assets and goodwill (IFRS3 "Business Combinations").

## Trading and operating performance

- Group turnover increased 38 per cent to £45.4m from £32.9m (2007: included £3.8m for 12 weeks from the Evoxus acquisition).
- Group operating profit increased from £1.4m to £3.5m including £1.1m profit from the sale of freehold property. Costs include fees of £0.2m for the delisting and share buy back and £0.3m for amortisation of intangible fixed assets. Excluding these three items Group operating profit would be £2.8m (2007: £1.5m).
- Group profit after tax was £1.9m (2007: group loss £14.2m which was greatly impacted by the loss on disposal of the Distribution businesses of £13.8m).
- Net cash was £9.2m (2007: £10.3m) – £3.7m was paid for 10.6m shares purchased by Tender Offer and cancelled.

# Chief Executive Officer's report continued

- Key performance indicators (KPI's) – our KPI's are growth of revenues and operating margin (measured as earnings before interest, exceptional items, tax and amortisation of intangible assets as a percentage of revenues). Our revenue growth was 38 per cent (2007: 30 per cent) and operating margin was, excluding the non-recurring profit on sale of property, 5.8 per cent (2007: 4.5 per cent). The majority of the Group's recognised revenues derive from customer contracts of a three year term although some contracts may be longer. Good relationships with all customers is important as they give the Group ability to upsell other services and to renew contracts before expiration of the minimum term.

## Managed Data Services ("MDS")

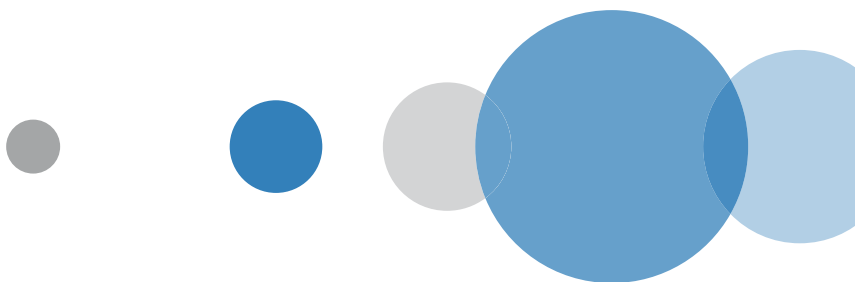
MDS revenues increased 17 per cent to £33.7m (2007: £28.7m). Contract churn, being contracts not renewed at the end of term or early termination was 10 per cent. This was slightly above our expectations and largely caused by some customers not wishing to migrate to a new software platform for our data back up service.

However there were very good new contracts won during the year and an excellent record of negotiating contract renewals and upselling further services into our customer base. Our MDS recurring annualised revenues at the year end was £39.8m. This includes some contracts that have still to be commissioned, but it gives us a very good start for this new fiscal year.

Last year further investment was made to LANnet, our UK high capacity network ring, in order to make it more resilient. There have been numerous thefts of copper cable across the country, which in turn is causing vandalism to the fibre optic cables sited nearby so we have installed additional circuits to counter these unfortunate incidents.

We are presently three quarters of the way through a major £2.9m refit and expansion of our Harrogate data centre, which is scheduled to complete in July 2008. We continue to minimise our own internal use of data centre space by implementing server and storage filer virtualisation which we also offer as a consultancy service to customers. Should we require additional data centre capacity we have detailed agreed plans, including power availability, to quickly use part of our Reading facility.





### Managed Voice Services (“MVS”)

MVS revenues were £11.6m compared to £4.2m last year. However last year’s revenue included £3.8m for twelve weeks from the Evoxus acquisition, so on a pro-rata basis revenues actually declined from £13.2m to £11.6m. This was caused by the churn of two major contracts which at the time of acquisition of Evoxus had been forecast to cancel in 2008. The causes were customer internal reorganisations and not the services supplied by us. Indeed there are other services still supplied to the same customers. Consequently contract churn for the year was 40 per cent.

Despite this early set back, the acquired business was quickly integrated into InTechnology as the MVS Division operating from Reading, and I am pleased to report some very good new

business wins which have increased our year on year annualised recurring revenues by 13 per cent to £17.3m despite the high churn rate. New business won includes some major contracts which take several months to fully commission because of the size of the contract and multi-location sites.

We have continued to develop new voice services to offer compelling service offerings to the market. Included in these voice services are Push-To-Talk and Push-To-Experience mobile phone services.

### Push-To-Talk (“PTT”) Further investment in Mobile Tornado Group plc (“Mobile Tornado”)

In October 2007 we invested a further £2.4m in Mobile Tornado bringing our total investment to £6.4m and we now own 49.9 per

cent of Mobile Tornado’s issued ordinary share capital and all its £1.5m cumulative convertible redeemable preference shares. Mobile Tornado is currently loss making having incurred the development costs of its proprietary mobile phone software applications for PTT. Our Income Statement reflects our post tax share of Mobile Tornado’s trading losses of £1.5m.

InTechnology has agreed with Mobile Tornado an exclusive contract for the sale of a managed PTT service within the UK. InTechnology has developed this managed service around the core Mobile Tornado applications and we have recently completed trials of the services with very encouraging feedback. We expect during this new financial year to start securing recurring revenue contracts for large volumes of handset licences.

# Chief Executive Officer's report continued



PTT encompasses many different types of mobile phone services operating via the Operator's data channel. These include:

- PTT – enables walkie-talkie communication on a one to many or one to one basis.
- Location – pinpoint the location of a user using GPS enabled mobile handsets.
- Video – can be used in conjunction with PTT to bring video conferencing to mobile devices (laptops as well as mobile phones).
- Mail – messaging to groups.

We expect to launch in the UK all these services this year. Mobile

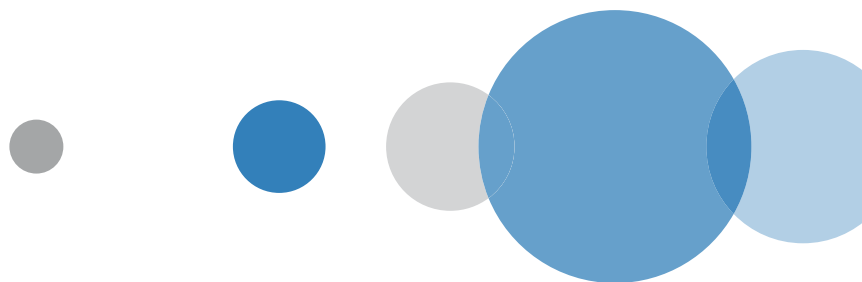
Tornado will, through partners, also globally market all these managed services except that in the UK we will be the exclusive partner. If demand for the services is high then InTechnology's operating profits will be improved and also the value of our 49.9 per cent investment in Mobile Tornado will be greatly enhanced.

## Cash

Gross cash on 31 March 2008 was £10.1m (2007: £12.8m). During the year operating cash flow was positive and we received the proceeds from the sale of our Harrogate freehold property, now tenanted by the purchaser of the former UK Distribution business.

All completion accounts following the sale of the Distribution businesses have been agreed and proceeds received and the large corporation tax liabilities paid, and, as mentioned earlier, we invested a further £2.4m in Mobile Tornado and commenced a major refit and expansion of our Harrogate data centre. The share buy back of 10.6m ordinary shares cost £3.7m plus £0.2m in fees.

Net cash is £9.2m (2007: £10.3m) and we have unutilised bank medium term facilities available for our data centre expenditures which all together put us in a financially strong position in the present uncertain economic climate.



## Board

Jason Firth, head of Professional Services, resigned as a director on 5 December 2007 in order to pursue other interests. His role was internally replaced. Three investment funds, Artemis, Gartmore and Herald Investment Trust, together own 22.3 per cent of the issued share capital and we have agreed that they should have the right to appoint one non-executive director to our Board.

opportunities around for us to seize and thus grow our recurring revenues and profits despite the recent uncertain economic outlook. Our balance sheet is strong; we have net cash and unutilised bank facilities so we should not be directly impacted by the “credit crunch”. Our data and voice services offer all our existing and future customers the means to increase their productivity. Your Board remains confident of further growth this year.

## Outlook

We started this new year in good shape with improved service offerings across both data and voice divisions. There are great

**Peter Wilkinson**  
Chief Executive Officer  
17 June 2008

# Management team



Reliability

Efficiency

Trust

## Non-Executive Directors

**The Rt. Hon Lord Parkinson, Chairman and Senior non-Executive Director, aged 76**

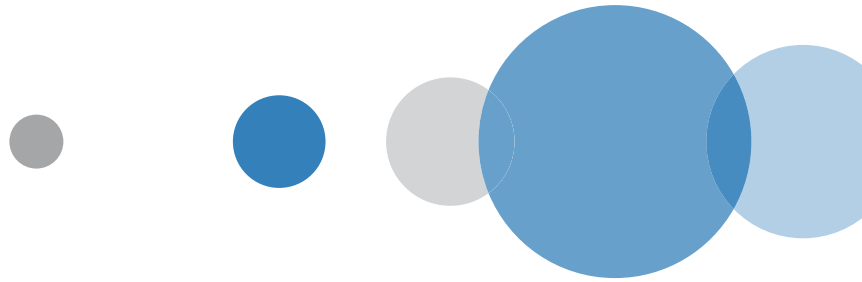
Lord Parkinson was appointed to the Board in July 2000 as a non-Executive Director and is Chairman of the Audit Committee and a member of the Remuneration Committee. Lord Parkinson is a Member of the House of Lords and was a Member of Parliament from 1970 to 1992, during which time he held a number of 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 65**

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 59**

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 54

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 60% 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.

Peter is non-executive Chairman of Mobile Tornado Group plc, an AIM listed telecoms technology company, and holds a 13% stake. InTechnology has a 49.9% stake in Mobile Tornado Group.

### Andrew Kaberry, Finance Director, aged 61

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.

### Richard James, Company Secretary, aged 47

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, Chief Operating Officer, aged 42

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

# Directors' report



Reliability

Efficiency

Trust

The Directors present their annual report and audited financial statements of the Company and the Group for the year ended 31 March 2008.

## Principal activities

InTechnology plc provides managed data and voice services to users over its own end to end quality assured IP network.

## Business review

The information that fulfils the requirements of the Business Review can be found in the Chief Executive Officer's report on pages 5 to 9. Our review of the principal risks and uncertainties of the business is set out on pages 18 to 19.

## Results and dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2008 (2007: £nil). The Company currently intends to reinvest future earnings to finance the growth of the business.

The profit retained for the financial year of £1,881,000 (2007: £14,198,000 loss) will be added to reserves.

## Share capital

Details of changes in share capital, including purchases by the Company of its own shares, are set out in note 19 to the consolidated financial statements. Authority for the Company to make purchases of ordinary shares of up to £8,500,000 was passed at the Extraordinary General Meeting on 3 December 2007 and Court consent registered on 23 January 2008 at Companies House.

## Directors

The Directors of the Company during the year ended 31 March 2008, together with brief biographies, are shown on pages 10 and 11, with the exception of Jason Firth who resigned as a director on 5 December 2007.

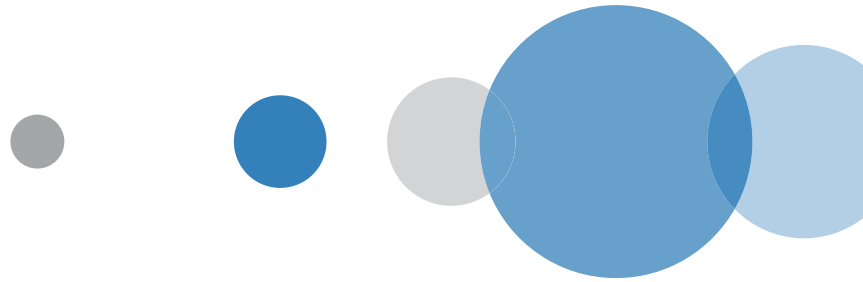
## Re-election of Directors

In accordance with the Company's Articles of Association, Directors will retire by rotation. Accordingly, Peter Wilkinson, Andrew Kaberry and Richard James will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

## Directors' remuneration and interests

The Remuneration report is set out on pages 21 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 16 to 20.



Details of related party transactions involving Directors of the Company are given in note 25 to the financial statements.

### Substantial shareholdings

At 17 June 2008, 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                       | 59.5%                     |
| Artemis Investment Management Limited | 12.3%                     |
| Jon Wood                              | 8.0%                      |
| Gartmore Investment Management        | 7.2%                      |
| Andrew Kaberry                        | 4.6%                      |

### 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 is a going concern. 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 to 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 employment 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.

# Directors' report continued



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 very important to 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 notes 19 and 20 to the financial statements.

## Equity Participation Plan

The members are being requested to approve the introduction of the InTechnology plc Equity Participation Plan ("EPP") which is being introduced to attract, incentivise and retain directors and senior employees of the Company.

Under the EPP, directors and senior employees will be selected to participate on a discretionary basis to subscribe for shares on 'nil paid' terms. Under the share subscription agreement participants agree to pay a price equal to the unrestricted market value of the shares when a call is made for those amounts by the Company in accordance with the share subscription agreement and Articles of Association.

Awards can be made subject to performance conditions although it is not intended that the initial awards subscribed for under the EPP are to be subject to any performance conditions. EPP awards are subject to an employment condition.

A summary of the main features of the EPP are set out in Appendix 1 to the Notice of Annual General Meeting.

## Research and development

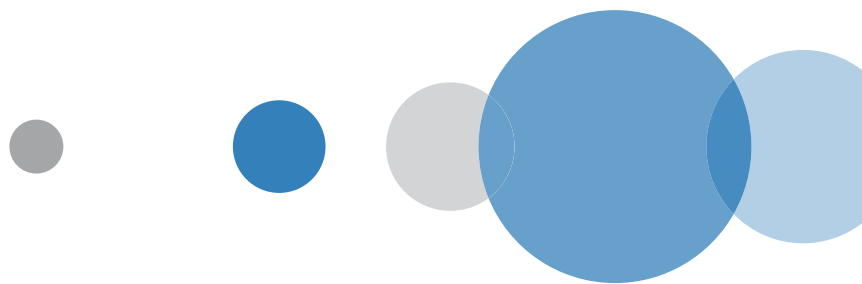
The Group continues to undertake the development of new products with the objective of increasing future profitability. The cost to the Group is charged to the profit and loss account as incurred.

## 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 2008 average creditor days for the Group and Company were 21 days (2007: 16 days) and 21 days (2007: 22 days) respectively.





### Charitable and political donations

The contributions made by the Group during the year for charitable purposes totalled £8,435 (2007: £2,610). The Group made no political contributions (2007: £nil).

### 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 16 July 2008.

Details of the business to be proposed at the AGM are contained within the Notice of Meeting, which is set out on pages 75 and 76.

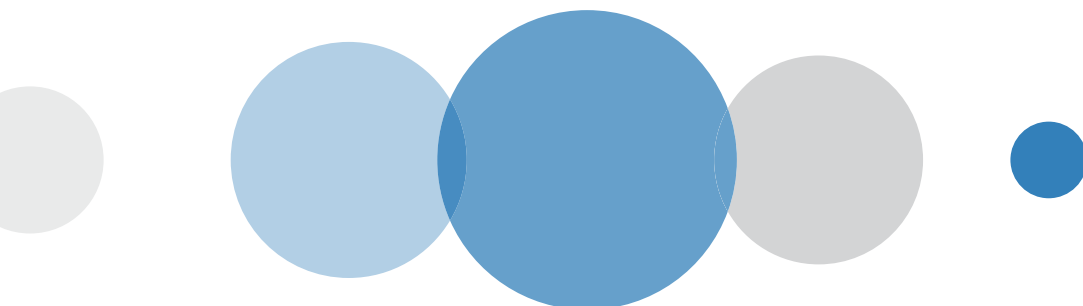
### Independent auditors

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.

By order of the Board

**Richard James**  
Company Secretary  
17 June 2008

# Corporate governance



InTechnology plc is an unlisted public company and is not therefore required to comply with the Principles of Good Governance and Code of Best Practice, the Financial Reporting Council 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 in a sensible and pragmatic manner.

## Board of Directors

The Board of Directors consists of seven 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 Company 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 Company's expense. The Board programme is designed so that Directors have regular opportunity to consider the Company's strategy, policies, budgets, progress reports and financial position and to arrive at a balanced assessment of the Company's position and prospects.

## Re-election of Directors

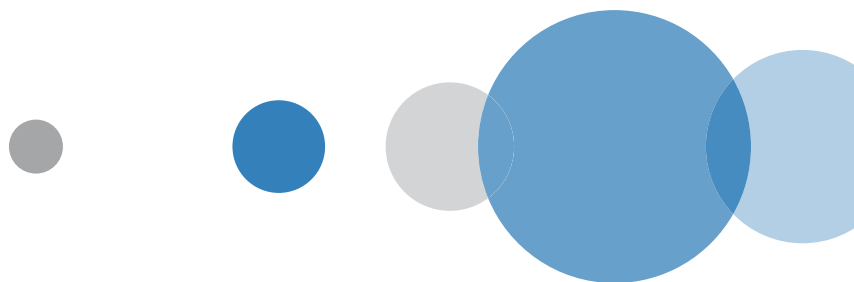
As required by the Company's Articles of Association, Directors offer themselves for re-election at least once every three years. Any Director appointed during the year is required to seek re-appointment by shareholders at the next Annual General Meeting. The biographical details of all the Directors are set out on pages 10 and 11.

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 Company's corporate governance policies and for assisting the Board in facilitating compliance by the Company with its legal obligations.

The Board receives reports from the following three committees:

### The Audit Committee

Comprises 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 three non-Executive Directors 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.

#### The Executive Operating Board

This comprises the Executive Directors and certain senior business managers, and is chaired by the CEO. It acts as a general operating management committee and meets twice monthly for most of the year. It authorises recruitment and capital expenditure and reviews operational and financial performance.

#### 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 put on the websites of Sharemark ([www.sharemark.co.uk](http://www.sharemark.co.uk)) and the Company ([www.intechnology.com](http://www.intechnology.com)).

The Annual General Meeting is a forum for shareholders' participation with the opportunity to meet and question Board members.

#### 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:

# Corporate governance continued

- (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 bi-monthly Board meetings. Where lapses in internal control are detected, these are rectified.
- (c) The Company's cash flow is monitored monthly.
- (d) The Board authorises capital expenditure where this is significant and all capital expenditure is first authorised by the Executive Operating Board.

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.

## **Risk and uncertainties**

There are a number of potential risks and uncertainties that could have an impact on the Company's long term prospects.

## **Competitive pressures**

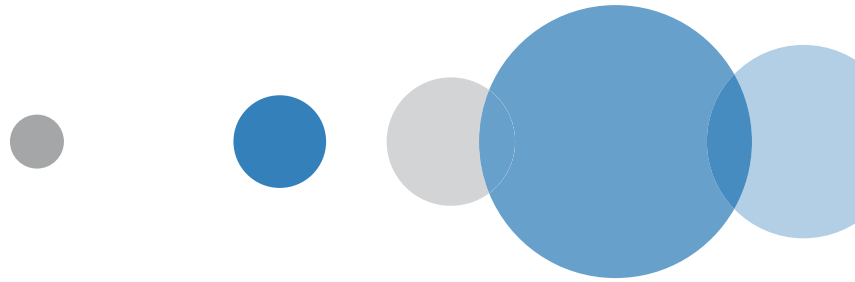
Both our managed data and managed voice services divisions operate within the UK in a competitive environment.

The MDS division market online data back up and restore services that compete with traditional in-house computer back up solutions. Network services compete with all the major telecom companies and data centre hosting competes with many specialist data centre companies. To mitigate these

competitive pressures the Company markets its various services as a "one-stop-shop", targets niche sectors of the market and constantly develops and refines its products to demonstrate a competitive edge to existing and potential customers.

The MVS division has competition from the large telecom companies and many smaller operators. To mitigate these competitive pressures the Company offers more value added services such as Voice Over IP products and its recently launched mobile phone services. These latter services help differentiate the Company and earn higher margins than such commodity services as lines and call minutes.

Both Data and Voice divisions contract with agreed service level agreements (SLA's). Adherence by the Company to operating within such SLA's is crucial to maintaining customer satisfaction and renewal of a contract.



### *Staff costs*

As a services business total staff costs are approximately 55 per cent of our total operating costs. The Company could be hindered by a shortage or inability to recruit and retain qualified and experienced staff.

To mitigate this risk the Company constantly seeks to structure our recruitment and retention strategies to attract and retain the right people.

### *Electricity costs*

Our data centres, vital to delivering all our products, consume large amounts of electricity. The latter is increasing each year by double digit inflation and yet our services are normally contracted for a minimum three year term. There is therefore pressure on operating margins.

To mitigate this risk the Company has revised its hosting service contracts so that power costs can be separately identified and indexed, and power cost increases can be passed on to the customer.

### *Economy*

Any national economic downturn can detrimentally affect the Company's level of demand for its data and voice services.

To mitigate this risk the Company contracts for all services on a three year or longer minimum term and constantly reviews, develops and enhances its product range so that customers can improve their own productivity or reduce their current bought in costs.

### *Risk assessment*

The Board is made aware of the risks to the Company by the Executive Directors who are members of the Executive Operations Board, which includes all senior managers of the Company. The Executive Operations Board usually meets two times per month.

The Executive Operations Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Company.

### *Statement of Directors' responsibilities in respect of the Annual Report and Financial Statements*

The directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and group for that period.

# Corporate governance<sup>continued</sup>



In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state that the financial statements comply with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

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 directors are responsible for the maintenance and integrity of the company's website and legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

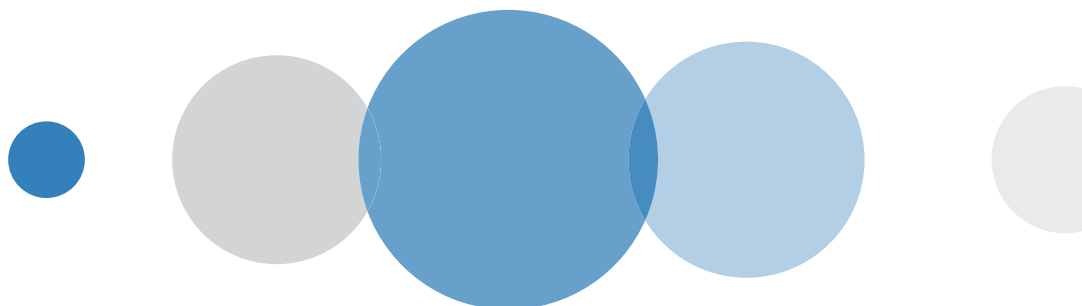
So far as each Director is aware, there is no relevant information of which the Company's auditors

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  
17 June 2008

# Remuneration report



As an unlisted public 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.

# Remuneration report continued



(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 2008 were £24,000 (2007: £40,000). 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 |
| Bryn Sage       | 6 months  |

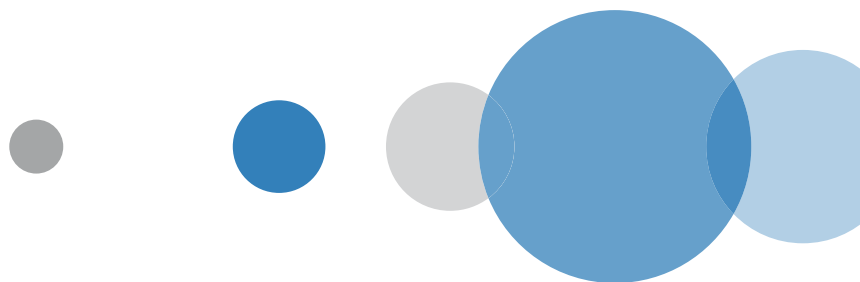
With the exception of the contract with Richard James, if the Company terminates the contract by notice but other than

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:

|                                | Salary     | Bonus     | 2008<br>Benefits<br>in kind | Pension<br>contributions | Total        | 2007<br>Total |
|--------------------------------|------------|-----------|-----------------------------|--------------------------|--------------|---------------|
|                                | £'000      | £'000     | £'000                       | £'000                    | £'000        | £'000         |
| <b>Executive Directors</b>     |            |           |                             |                          |              |               |
| Peter Wilkinson                | 212        | –         | 42                          | 3                        | <b>257</b>   | 253           |
| Bryn Sage                      | 110        | 70        | 22                          | 6                        | <b>208</b>   | 204           |
| Andrew Kaberry                 | 150        | –         | 30                          | 12                       | <b>192</b>   | 195           |
| Richard James                  | 150        | –         | 17                          | –                        | <b>167</b>   | 167           |
| Jason Firth (8 months)         | 67         | 15        | 24                          | 3                        | <b>109</b>   | 126           |
| Stephen Pearce (9 months)      | –          | –         | –                           | –                        | –            | 136           |
| Mark Lower (7 months)          | –          | –         | –                           | –                        | –            | 169           |
|                                | <b>689</b> | <b>85</b> | <b>135</b>                  | <b>24</b>                | <b>933</b>   | <b>1,250</b>  |
|                                | Fees       | Bonus     | Benefits<br>in kind         | Pension<br>contributions | Total        | Total         |
|                                | £'000      | £'000     | £'000                       | £'000                    | £'000        | £'000         |
| <b>Non-Executive Directors</b> |            |           |                             |                          |              |               |
| The Rt. Hon. Lord Parkinson    | 50         | –         | –                           | –                        | <b>50</b>    | 50            |
| Joe McNally                    | 30         | –         | –                           | –                        | <b>30</b>    | 30            |
| Charles Scott                  | 30         | –         | –                           | –                        | <b>30</b>    | 30            |
|                                | <b>110</b> | –         | –                           | –                        | <b>110</b>   | <b>110</b>    |
| <b>Total</b>                   | <b>799</b> | <b>85</b> | <b>135</b>                  | <b>24</b>                | <b>1,043</b> | <b>1,360</b>  |

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

# Remuneration report continued

## Directors' interests

### Interests in shares

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

|                 | 2008              |                           | 2007              |                           |
|-----------------|-------------------|---------------------------|-------------------|---------------------------|
|                 | Number            | Percentage of shares held | Number            | Percentage of shares held |
| Peter Wilkinson | 78,403,998        | 59.5%                     | 78,403,998        | 55.3%                     |
| Andrew Kaberry  | 6,129,562         | 4.6%                      | 7,379,562         | 5.2%                      |
|                 | <b>84,533,560</b> | <b>64.1%</b>              | <b>85,783,560</b> | <b>60.5%</b>              |

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 2008 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 2008.

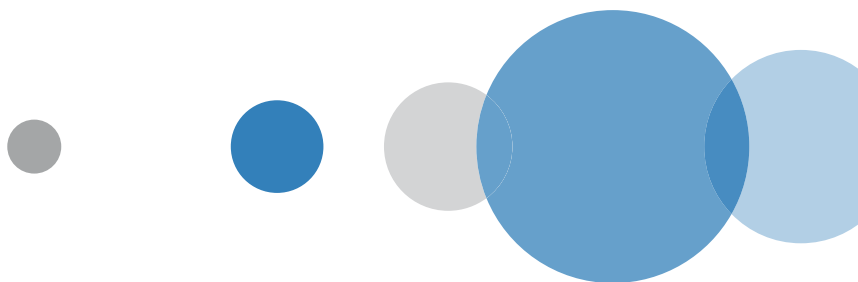
### Interests in share options (audited)

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 07/01/00 at 1.8 pence per share
- Options granted directly by InTechnology plc at varying dates and prices

Further details are provided in notes 19 and 20.

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:

| <b>Executive Directors</b>     | <b>No. of share options<br/>2008 and 2007</b> | <b>Exercise<br/>price (p)</b> | <b>Earliest<br/>exercise date</b> | <b>Expiry date</b> |
|--------------------------------|---|-------------------------------|-----------------------------------|--------------------|
| 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           |
| Richard James                  | 800,000                                       | 38.5                          | 03/07/09                          | 03/07/16           |
| <b>Non-Executive Directors</b> |   |                               |                                   |                    |
| 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           |

The market price of the Company's shares at 1 February 2008, the date the company delisted from AIM, was 28.5p (2007: 38.0p) and the range during the year then ended was 24.0p to 39.1p.

**Joe McNally**

Non-Executive Director

17 June 2008

# Independent auditors' report to the members of InTechnology plc

for the year ended 31 March 2008

We have audited the group and parent company financial statements (the "financial statements") of InTechnology plc for the year ended 31 March 2008 which comprise the Consolidated income statement, the Group and Company statements of changes in shareholders' equity, the Group and Company balance sheets, the Group and Company cash flow statements and the related notes to the financial statements. 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, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

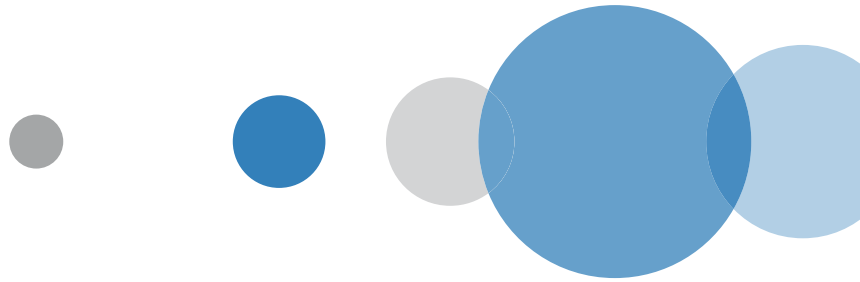
Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 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 whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The

information given in the Directors' Report includes that specific information presented in the Chief Executive Officer's report that is cross referred from the Business Review section of the Directors' Report.

In addition we 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. The other information comprises only the Chairman's introduction, the Chief Executive Officer's report, 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 group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 March 2008 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the

provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 March 2008 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

17 June 2008

# Consolidated income statement

for the year ended 31 March 2008

|  | Note     | 2008<br>£'000   | 2007<br>£'000   |
|--|----------|-----------------|-----------------|
| <b>Continuing operations</b>                                     |          |                 |                 |
| Revenue  | 3        | <b>45,353</b>   | 32,900          |
| Cost of sales  |          | <b>(16,978)</b> | (11,797)        |
| <b>Gross profit</b>  |          | <b>28,375</b>   | <b>21,103</b>   |
| Net operating expenses before depreciation and amortisation      |          | <b>(21,850)</b> | (15,449)        |
| Depreciation of property, plant & equipment                      |          | <b>(4,237)</b>  | (4,231)         |
| Amortisation of intangible assets                                |          | <b>(280)</b>    | (63)            |
| Net operating expenses   |          | <b>(26,367)</b> | (19,743)        |
| Other operating income   |          | <b>343</b>      | 80              |
| Group operating profit before sale of property                   |          | <b>2,351</b>    | 1,440           |
| Profit on sale of property                                       |          | <b>1,134</b>    | –               |
| <b>Group operating profit</b>                                    |          | <b>3,485</b>    | <b>1,440</b>    |
| Finance income   | 6        | <b>823</b>      | 204             |
| Finance costs  | 6        | <b>(124)</b>    | (1,368)         |
| Share of post tax loss of associate                              |          | <b>(1,453)</b>  | (711)           |
| <b>Profit/(loss) on continuing operations before taxation</b>    |          | <b>2,731</b>    | <b>(435)</b>    |
| Taxation   | 7        | <b>(850)</b>    | 34              |
| <b>Profit/(loss) for the year from continuing operations</b>     |          | <b>1,881</b>    | <b>(401)</b>    |
| <b>Discontinued operations</b>                                   |          |                 |                 |
| Post tax loss for the year from discontinued operations          | 4        | –               | (13,797)        |
| <b>Profit/(loss) for the year</b>                                | <b>3</b> | <b>1,881</b>    | <b>(14,198)</b> |
| <b>Earnings/(loss) per share (pence) – Total Group</b>           |          |                 |                 |
| Basic  | 10       | <b>1.34</b>     | (10.04)         |
| Diluted  | 10       | <b>1.32</b>     | (9.89)          |
| <b>Earnings/(loss) per share (pence) – Continuing operations</b> |          |                 |                 |
| Basic  | 10       | <b>1.34</b>     | (0.28)          |
| Diluted  | 10       | <b>1.32</b>     | (0.28)          |

# Statements of changes in shareholders' equity

for the year ended 31 March 2008

|  | Share capital | Share premium  | Capital redemption reserve | Share option reserve | Retained earnings | Total           |
|--|---------------|----------------|----------------------------|----------------------|-------------------|-----------------|
|  | £'000         | £'000          | £'000                      | £'000                | £'000             | £'000           |
| <b>Group</b>                               |               |                |                            |                      |                   |                 |
| As at 1 April 2006                         | 1,891         | 188,668        | –                          | 906                  | (111,104)         | <b>80,361</b>   |
| Employee share options:                    |               |                |                            |                      |                   |                 |
| – value of employee services               | –             | –              | –                          | 248                  | –                 | <b>248</b>      |
| – deferred tax charge on employee services | –             | –              | –                          | (85)                 | –                 | <b>(85)</b>     |
| – proceeds from shares issued              | 8             | 175            | –                          | –                    | –                 | <b>183</b>      |
| Net loss for the year                      | –             | –              | –                          | –                    | (14,198)          | <b>(14,198)</b> |
| <b>As at 31 March 2007</b>                 | <b>1,899</b>  | <b>188,843</b> | <b>–</b>                   | <b>1,069</b>         | <b>(125,302)</b>  | <b>66,509</b>   |
| Employee share options:                    |               |                |                            |                      |                   |                 |
| – value of employee services               | –             | –              | –                          | 161                  | –                 | <b>161</b>      |
| – tax charge on employee services          | –             | –              | –                          | 40                   | –                 | <b>40</b>       |
| – deferred tax charge on employee services | –             | –              | –                          | (113)                | –                 | <b>(113)</b>    |
| – proceeds from shares issued              | 5             | 4              | –                          | –                    | –                 | <b>9</b>        |
| Sale of property                           |               |                |                            |                      |                   |                 |
| – corporation tax on revalued amount       | –             | –              | –                          | –                    | (219)             | <b>(219)</b>    |
| – deferred tax on revalued amount          | –             | –              | –                          | –                    | 120               | <b>120</b>      |
| Capital restructure                        | (480)         | (132,534)      | 480                        | –                    | 132,534           | <b>–</b>        |
| Purchase of ordinary shares                | (106)         | (3,596)        | –                          | –                    | –                 | <b>(3,702)</b>  |
| Share of exchange losses of associate      | –             | –              | –                          | –                    | (447)             | <b>(447)</b>    |
| Net profit for the year                    | –             | –              | –                          | –                    | 1,881             | <b>1,881</b>    |
| <b>As at 31 March 2008</b>                 | <b>1,318</b>  | <b>52,717</b>  | <b>480</b>                 | <b>1,157</b>         | <b>8,567</b>      | <b>64,239</b>   |

# Statements of changes in shareholders' equity

for the year ended 31 March 2008

continued

|  | Share capital | Share premium  | Capital redemption reserve | Share option reserve | Retained earnings | Total           |
|--|---------------|----------------|----------------------------|----------------------|-------------------|-----------------|
|  | £'000         | £'000          | £'000                      | £'000                | £'000             | £'000           |
| <b>Company</b>                             |               |                |                            |                      |                   |                 |
| As at 1 April 2006                         | 1,891         | 188,668        | –                          | 906                  | (111,040)         | <b>80,425</b>   |
| Employee share options:                    |               |                |                            |                      |                   |                 |
| – value of employee services               | –             | –              | –                          | 248                  | –                 | <b>248</b>      |
| – deferred tax charge on employee services | –             | –              | –                          | (85)                 | –                 | <b>(85)</b>     |
| – proceeds from shares issued              | 8             | 175            | –                          | –                    | –                 | <b>183</b>      |
| Net loss for the year                      | –             | –              | –                          | –                    | (13,965)          | <b>(13,965)</b> |
| <b>As at 31 March 2007</b>                 | <b>1,899</b>  | <b>188,843</b> | <b>–</b>                   | <b>1,069</b>         | <b>(125,005)</b>  | <b>66,806</b>   |
| Employee share options:                    |               |                |                            |                      |                   |                 |
| – value of employee services               | –             | –              | –                          | 161                  | –                 | <b>161</b>      |
| – tax charge on employee services          | –             | –              | –                          | 40                   | –                 | <b>40</b>       |
| – deferred tax charge on employee services | –             | –              | –                          | (113)                | –                 | <b>(113)</b>    |
| – proceeds from shares issued              | 5             | 4              | –                          | –                    | –                 | <b>9</b>        |
| Sale of property                           |               |                |                            |                      |                   |                 |
| – corporation tax on revalued amount       | –             | –              | –                          | –                    | (219)             | <b>(219)</b>    |
| – deferred tax on revalued amount          | –             | –              | –                          | –                    | 120               | <b>120</b>      |
| Capital restructure                        | (480)         | (132,534)      | 480                        | –                    | 132,534           | –               |
| Purchase of ordinary shares                | (106)         | (3,596)        | –                          | –                    | –                 | <b>(3,702)</b>  |
| Net loss for the year                      | –             | –              | –                          | –                    | (3,599)           | <b>(3,599)</b>  |
| <b>As at 31 March 2008</b>                 | <b>1,318</b>  | <b>52,717</b>  | <b>480</b>                 | <b>1,157</b>         | <b>3,831</b>      | <b>59,503</b>   |



# Balance sheets

as at 31 March 2008

|   | Note | Group          |               | Company        |               |
|---|------|----------------|---------------|----------------|---------------|
|   |      | 2008<br>£'000  | 2007<br>£'000 | 2008<br>£'000  | 2007<br>£'000 |
| <b>Assets</b>                                       |      |                |               |                |               |
| <b>Non-current assets</b>                           |      |                |               |                |               |
| Goodwill  | 11   | <b>38,997</b>  | 39,792        | <b>35,747</b>  | 32,673        |
| Intangible assets                                   | 11   | <b>493</b>     | 773           | –              | –             |
| Property, plant & equipment                         | 12   | <b>6,445</b>   | 9,611         | <b>6,445</b>   | 8,982         |
| Investment in subsidiary and associate undertakings | 14   | <b>4,076</b>   | 3,623         | <b>6,419</b>   | 14,188        |
| Deferred tax assets                                 | 8    | <b>2,284</b>   | 1,671         | <b>1,840</b>   | 2,139         |
| Trade and other receivables                         | 16   | –              | –             | <b>6,718</b>   | 5,484         |
|   |      | <b>52,295</b>  | 55,470        | <b>57,169</b>  | 63,466        |
| <b>Current assets</b>                               |      |                |               |                |               |
| Inventories   | 15   | <b>105</b>     | 92            | <b>105</b>     | 41            |
| Trade and other receivables                         | 16   | <b>10,534</b>  | 14,895        | <b>10,094</b>  | 11,414        |
| Cash and cash equivalents                           |      | <b>10,085</b>  | 12,782        | <b>10,019</b>  | 12,723        |
|   |      | <b>20,724</b>  | 27,769        | <b>20,218</b>  | 24,178        |
| <b>Liabilities</b>                                  |      |                |               |                |               |
| <b>Current liabilities</b>                          |      |                |               |                |               |
| Trade and other payables                            | 17   | <b>(7,303)</b> | (11,498)      | <b>(6,988)</b> | (7,633)       |
| Borrowings  | 18   | <b>(567)</b>   | (1,872)       | <b>(567)</b>   | (586)         |
| Current tax liabilities                             |      | <b>(589)</b>   | (2,766)       | <b>(589)</b>   | (2,766)       |
| <b>Net current assets</b>                           |      | <b>12,265</b>  | 11,633        | <b>12,074</b>  | 13,193        |
| <b>Non-current liabilities</b>                      |      |                |               |                |               |
| Trade and other payables                            | 17   | –              | –             | <b>(9,419)</b> | (9,419)       |
| Borrowings  | 18   | <b>(321)</b>   | (594)         | <b>(321)</b>   | (434)         |
| <b>Net assets</b>                                   |      | <b>64,239</b>  | <b>66,509</b> | <b>59,503</b>  | <b>66,806</b> |
| <b>Shareholders' equity</b>                         |      |                |               |                |               |
| Ordinary shares                                     | 19   | <b>1,318</b>   | 1,899         | <b>1,318</b>   | 1,899         |
| Share premium                                       | 19   | <b>52,717</b>  | 188,843       | <b>52,717</b>  | 188,843       |
| Capital redemption reserve                          |      | <b>480</b>     | –             | <b>480</b>     | –             |
| Share option reserve                                |      | <b>1,157</b>   | 1,069         | <b>1,157</b>   | 1,069         |
| Retained earnings                                   |      | <b>8,567</b>   | (125,302)     | <b>3,831</b>   | (125,005)     |
| <b>Total shareholders' equity</b>                   |      | <b>64,239</b>  | <b>66,509</b> | <b>59,503</b>  | <b>66,806</b> |

The financial statements on pages 28 to 74 were approved by the Board of Directors on 17 June 2008 and were signed on its behalf by:

Andrew Kaberry  
Finance Director

# Cash flow statements

for the year ended 31 March 2008

|  | Note | Group          |                 | Company        |                 |
|--|------|----------------|-----------------|----------------|-----------------|
|  |      | 2008<br>£'000  | 2007<br>£'000   | 2008<br>£'000  | 2007<br>£'000   |
| <b>Cash flows from operating activities</b>                        |      |                |                 |                |                 |
| Cash generated from operations                                     | 21   | 6,343          | 12,437          | 5,099          | 7,358           |
| Interest received  |      | 823            | 204             | 823            | 204             |
| Interest paid  |      | (44)           | (1,074)         | (31)           | (1,023)         |
| Interest element of finance lease payments                         |      | (80)           | (194)           | (81)           | (191)           |
| Tax paid   |      | (3,017)        | (4,990)         | (3,017)        | (4,990)         |
| <b>Net cash from operating activities</b>                          |      | <b>4,025</b>   | <b>6,383</b>    | <b>2,793</b>   | <b>1,358</b>    |
| <b>Cash flows from investing activities</b>                        |      |                |                 |                |                 |
| Proceeds from sale of business assets                              |      | 1,000          | 39,998          | 1,000          | 39,998          |
| Proceeds from sale of property, plant & equipment                  |      | 4,628          | 72              | 4,628          | 72              |
| Purchase of property, plant & equipment                            |      | (4,325)        | (3,145)         | (4,304)        | (3,136)         |
| Acquisition of subsidiaries (net of cash acquired)                 |      | (74)           | (8,143)         | (74)           | (6,825)         |
| Proceeds from sale of subsidiary undertakings                      |      | –              | 4,630           | –              | 4,630           |
| Investment in associate  |      | (2,419)        | (4,000)         | (2,419)        | (4,000)         |
| <b>Net cash used in investing activities</b>                       |      | <b>(1,190)</b> | <b>29,412</b>   | <b>(1,169)</b> | <b>30,739</b>   |
| <b>Cash flows from financing activities</b>                        |      |                |                 |                |                 |
| Net proceeds from issue of ordinary share capital                  |      | 9              | 183             | 9              | 183             |
| Purchase of ordinary shares  |      | (3,702)        | –               | (3,702)        | –               |
| Decrease in borrowings   |      | (1,181)        | (34,455)        | –              | (30,790)        |
| Capital element of finance lease payments                          |      | (647)          | (1,457)         | (624)          | (1,425)         |
| <b>Net cash outflow from financing</b>                             |      | <b>(5,521)</b> | <b>(35,729)</b> | <b>(4,317)</b> | <b>(32,032)</b> |
| <b>Net (decrease)/increase in cash and equivalents in the year</b> |      | <b>(2,686)</b> | <b>66</b>       | <b>(2,693)</b> | <b>65</b>       |
| Cash and equivalents at beginning of year                          |      | 12,782         | 12,719          | 12,723         | 12,661          |
| Exchange losses on cash and equivalents                            |      | (11)           | (3)             | (11)           | (3)             |
| <b>Cash and equivalents at end of year</b>                         |      | <b>10,085</b>  | <b>12,782</b>   | <b>10,019</b>  | <b>12,723</b>   |

# Notes to the financial statements

for the year ended 31 March 2008

## 1 General information

InTechnology plc provides managed data and voice services to users over its own end to end quality assured IP network.

The company is an unlisted public company incorporated and domiciled in the United Kingdom under the Companies Act 1985. The address of its registered office is Central House, Beckwith Knowle, Harrogate, HG3 1UG.

The registered number of the company is 3916586.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The financial statements have been prepared under the historical cost convention, except for share based payments which are measured at value, in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS for the first time. The standards used are those published by the International Accounting Standards Board ("IASB") and endorsed by the EU at the time of preparing these statements (June 2008). A summary of the more important accounting policies is set out below.

The Group previously reported its annual consolidated financial statements under UK Generally Accepted Accounting Principles ("UK GAAP"). As part of the transition to IFRS, announced on 30 October 2007, InTechnology published the restatement of comparative financial information under IFRS for the year ended 31 March 2007 and 31 March 2006. This is available in note 27. The disclosures required by IFRS 1 'First time adoption of International Financial Reporting Standards' concerning the transition from UK GAAP to IFRS are given in note 2.23. The date of transition to IFRS was 1 April 2006.

### Accounting estimates and judgements

The Group's critical accounting policies under IFRS have been set by management with the approval of the Audit Committee. The application of these policies requires estimates and assumptions to be made concerning the future and judgements to be made on the applicability of policies to particular situations. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Under IFRS an estimate or judgement may be considered critical if it involves matters that are highly uncertain, or where different estimation methods could reasonably have been used, or if changes in the estimate that would have a material impact on the Group's results are likely to occur from period to period. The critical judgements required when preparing the Group's accounts are as follows:

*Goodwill and fair value of assets acquired* – the Group's goodwill carrying value increased in 2008 following the further investment in Mobile Tornado Group as disclosed in note 14. The Group tests annually whether goodwill has suffered any impairment and the Group's goodwill value has been supported by detailed value-in-use calculations relating to the recoverable amounts of the underlying cash generating units. These calculations require the use of estimates, however as recoverable amounts significantly exceed carrying values, including goodwill, there is no impairment within a range of assumptions.

# Notes to the financial statements continued

## New IFRS standards, amendments and interpretations effective in 2008

The IASB and IFRIC have issued additional standards which are effective for this accounting period. The following standards and interpretations have been adopted by the Group:

- (i) IFRS 7 (Financial Instruments: Disclosures) and amendment to IAS 1 (Presentation of financial statements – Capital disclosures) – These standards introduce new disclosures relating to financial instruments. The Group's accounting policies and notes to the financial statements have been expanded to cover the required disclosures.
- (ii) IFRIC 8 (Scope of IFRS 2) – This standard requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This interpretation was not relevant to the Group in 2008.
- (iii) IFRIC 10 (Interim financial reporting and impairment) prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This interpretation was not applicable to the Group in 2008.

## New IFRS standards and interpretations not applied

The IASB and IFRIC have issued additional standards and interpretations which are effective for periods starting after the date of these financial statements. The following standards and interpretations have yet to be adopted by the Group:

- (i) IFRS 8 (Operating Segments) – This standard will be applicable in 2009 and replaces IAS 14, aligning segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 April 2009 but it is not expected to have any impact on the Group accounts.
- (ii) IAS 23 (Amendment), (Borrowing Costs) – This amendment to the standard is still subject to European Union endorsement but will be applicable to the Group in 2009. It requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing these borrowing costs will be removed. The Group will apply IAS 23 (Amended) from 1 April 2009, subject to endorsement by the EU, but the standard is currently not applicable to the Group as there are no qualifying assets.
- (iii) IFRIC 11 (IFRS 2 – Group and treasury share transactions) – IFRIC 11 provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and Group companies. The Group will apply IFRIC 11 from 1 April 2009, but it is not expected to have any impact on the Group accounts.

## Interpretations of existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant for the Group's operations:

- (i) IFRIC 12 (Service concession arrangements) - IFRIC 12 is effective from 1 January 2008 and applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. IFRIC 12 is not relevant to the Group's operations as none of the Group's companies provide for public sector services.
- (ii) IFRIC 13 (Customer loyalty programmes) - IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations as none of the Group's companies operate any loyalty programmes. The standard is effective from 1 July 2008.

(iii) IFRIC 14 (IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction) – This interpretation provides guidance on assessing the limit in IAS 19 on the amount of surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. IFRIC 14 is not relevant to the Group's operations because it does not have any defined benefit pension schemes.

## 2.2 Group accounts

### Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the Group's share of identifiable net assets acquired is recorded as goodwill.

### Associates

Associated undertakings are those companies in which the Group has a beneficial interest of between 20% and 50% in the equity capital and where the Group exercises significant influence over commercial and financial policy decisions. The consolidated income statement includes the Group's share of post-acquisition profits after tax, the consolidated statement of recognised income and expense includes the Group's share of other recognised gains and losses, and the consolidated balance sheet includes the Group's share of the net assets of associated undertakings.

## 2.3 Intangible assets

### Goodwill

On the acquisition of a business, fair values are attributed to the net assets acquired. Goodwill arises where the fair value of the consideration given for a business exceeds such net assets. Goodwill arising on acquisitions is capitalised and subject to impairment review, both annually and when there are indications that the carrying value may not be recoverable. Goodwill is allocated to cash generating units for the purpose of this impairment testing. Goodwill arising on acquisitions after 26 January 2000 and prior to 1 April 2006 was amortised over its estimated useful life; such amortisation ceased on 31 March 2006 due to the adoption of IFRS.

### Acquired in a business combination

The Group recognises intangible assets acquired as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets and the selection of an appropriate cost of capital. Furthermore, management must estimate the expected useful lives of intangible assets and charge amortisation on these assets accordingly. The useful lives are estimated to be 3 years for EEscape Holdings Limited and 7 years for Mobile Tornado Group plc.

### Research and development

Research expenditure, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is charged to income in the year in which it is incurred. Internal development expenditure, whereby research findings are applied to a plan for the production of new or substantially improved products or processes, is charged to income in the year in which it is incurred unless it meets the recognition criteria of IAS 38 'Intangible Assets'. Measurement and other uncertainties generally mean that such criteria are not met. Where, however, the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from product launch. Intangible assets relating to products in development are subject to impairment testing at each balance sheet date or earlier upon indication of impairment. Any impairment losses are written off immediately to income.

# Notes to the financial statements continued

## Computer software

Acquired computer software licences covering a period of greater than one year are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of three years.

## 2.4 Revenue recognition

### Sales of services and goods

Revenue comprises the fair value for the sale of services and goods, excludes inter-company sales and value-added taxes and represents net invoice value less estimated rebates, returns and settlement discounts. 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.

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.

### Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

## 2.5 Segmental reporting

A business segment is a group of assets and operations engaged in providing products and services that are subject to risks or returns that are different from those of other segments. A geographical segment operates within a particular economic environment that is subject to different risks and returns from other economic environments.

## 2.6 Employee benefits

### Pension obligations

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

## 2.7 Share based payments

The fair value of employee share option plans is calculated using the Black-Scholes model. In accordance with IFRS 2 'Share-based Payments' the resulting cost is charged to the income statement over the vesting period of the options. The value of the charge is adjusted to reflect expected and actual levels of options vesting as the Group does not use market-based performance criteria.

## 2.8 Currency translations

### Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the Company's functional and presentation currency.

### Transactions and balances

Assets and liabilities are translated at the exchange rates ruling at the end of the financial period. Exchange profits or losses on trading transactions are included in the Group income statement except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges, which, along with other exchange differences arising from non-trading items are dealt with through reserves.

### Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

### 2.9 Taxation

The charge for taxation is based on the profits for the year and takes into account taxation deferred because of temporary differences between the treatment of certain items for taxation and for accounting purposes. Temporary differences arise from the inclusion of profits and losses in the accounts in different periods from which they are recognised in tax assessments and primarily arise as a result of the difference between tax allowances on property, plant & equipment and the corresponding depreciation charge. Full provision is made for the tax effects of these differences using tax rates substantively enacted at the balance sheet date. No provision is made for unremitted earnings of foreign subsidiaries where there is no commitment to remit such earnings. Similarly, no provision is made for temporary differences relating to investments in subsidiaries since realisation of such differences can be controlled and is not probable in the foreseeable future. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

### 2.10 Exceptional items

Exceptional items are non-recurring material items which are outside the normal scope of the Group's ordinary activities such as liabilities and costs arising from a fundamental restructuring of the Group's operations. Such items are disclosed separately within the financial statements.

### 2.11 Property, plant & equipment

Property, plant & equipment is stated at historical cost less depreciation, with the exception of assets acquired as part of a business combination which are recorded at fair value. The Group's policy is to write off the difference between the cost of all property, plant & equipment, except freehold land, and their residual value on a straight line basis over their estimated useful lives. Reviews are made annually of the estimated remaining lives and residual values of individual productive assets, taking account of commercial and technological obsolescence as well as normal wear and tear, and adjustments are made where appropriate. Under this policy it becomes impractical to calculate average asset lives exactly. However, the total lives range from approximately 5 to 50 years for buildings and leasehold improvements, and 2 to 10 years for plant and equipment. All individual assets are reviewed for impairment when there are indications that the carrying value may not be recoverable. By far the bulk of the Group's 'plant and equipment' asset class relates to the value of plant and equipment at the Group's data centres, consequently the Group does not seek to analyse out of this class other items such as motor vehicles.

# Notes to the financial statements continued

## 2.12 Impairment of non-financial assets

The Group assesses at each year end whether an asset may be impaired. If any evidence exists of impairment, the estimated recoverable amount is compared to the carrying value of the asset and an impairment loss is recognised where appropriate. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In addition to this, goodwill is tested for impairment at least annually.

## 2.13 Non-current assets held for sale and discontinued operations

Non-current assets are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale.

## 2.14 Leases

Assets acquired under finance leases are included in the balance sheet under property, plant & equipment at an amount reflecting the fair value of the asset and are depreciated over the shorter of the lease term and their estimated useful lives. The capital element of future lease rentals is included in creditors. Finance charges are allocated to the income statement each year in proportion to the capital element outstanding. The cost of operating leases is charged to the income statement as incurred.

## 2.15 Financial risk factors

The Group's activities expose it to a variety of financial risks: currency risk, interest-rate risk, liquidity risk and credit risk. The Group's overall risk management strategy is approved by the Board and implemented and reviewed by the Executive Operating Board. Detailed financial risk management is then delegated to the Group Finance department which has a specific policy to manage financial risk. Regular reports are received to enable prompt identification of financial risks so that appropriate action may be taken.

### Currency risk

The Group purchases internationally but has minimal exposure to currency risk arising from various currency exposures, primarily with respect to the US Dollar and the Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations. The Group uses foreign currency bank balances to manage its foreign exchange risk arising from future commercial transactions, recognised assets and liabilities. The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk.

For 2008, had the Group's basket of reporting currencies been 10% weaker/stronger against Sterling than the actual rates experienced, post-tax profit for the year would have been £0.1m (2007: £2.1m) lower/higher than reported and equity would have been £nil (2007: £nil) lower/higher.

### Interest rate risk

The Group has both interest bearing assets and liabilities. All borrowings are fixed rate.

Had interest rates moved by 10 basis points, post tax profits would have moved by £11,000 (2007: £13,000).

### Liquidity risk

The Group actively maintains a mixture of long-term and short-term committed facilities designed to ensure the Group has sufficient funds available for operations and planned investments.

On a regular basis, management monitors forecasts of the Group's cash flows against both internal targets and those targets imposed by external lenders. As shown in note 18, the Group has substantial committed, unused facilities and the directors are confident this situation will remain the case for the foreseeable future.

### Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Cash transactions are limited to high-credit quality financial institutions.



### 2.16 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, as well as maintaining an optimal capital structure to reduce overall cost of capital.

In order to maintain this optimal structure, the Group may adjust the amount of dividends paid, issue new shares, return capital to shareholders or dispose of assets to reduce net debt.

### 2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### 2.18 Inventories

Inventories are stated at the lower of cost and net realisable amount on a first in first out basis. Net realisable amount is the estimated selling price in the ordinary course of business less any applicable variable selling costs. Provision is made for obsolete, slow moving and defective inventory where appropriate. Profits arising on intra Group sales are eliminated in so far as the product remains in Group inventory at the year end.

### 2.19 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, using the effective interest method, less impairment losses.

### 2.20 Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.21 Cash and cash equivalents

Cash and cash equivalents comprises cash balances and short term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

### 2.22 Investments

Investments in quoted securities are stated at fair value, being the appropriate quoted market value, with movements in the fair value passing through the income statement. Investments in unquoted securities are carried at fair value unless such value cannot be reliably measured, in which case the investments are carried at cost. Investments are subject to impairment testing at each balance sheet date or earlier upon indication of impairment.

### 2.23 IFRS transitional arrangements

When preparing the Group's IFRS balance sheet at 1 April 2006, the date of transition, the following optional exemptions, provided by IFRS 1 'First-time Adoption of International Financial Reporting Standards' from full retrospective application of IFRS accounting policies, have been adopted:

(i) **Investments in subsidiary and associate**

The provisions of IFRS 3 'Business combinations' have been applied from 1 April 2006. The net carrying value of goodwill at 31 March 2006 under the previous accounting policies has been deemed to be the cost at 1 April 2006.

(ii) **Estimates**

Where estimates had previously been made under UK GAAP, consistent estimates (after adjustments to reflect any difference in accounting policies) have been made for the same date on transition to IFRS (i.e. judgements affecting the Group's opening balance sheet have not been revisited for the benefit of hindsight).

# Notes to the financial statements continued

## 3 Segmental analysis

The Group is organised into two distinct business segments: MDS (data services) and MVS (voice services). As the Group only trades in the United Kingdom there is no geographical segmental reporting.

EEscape Holdings Limited and its subsidiaries, voice businesses, were acquired in January 2007 and in June 2007 the businesses were hived up to InTechnology and became the MVS division. Following the hive up certain support services were merged including the trade debtor and creditor accounting ledgers so it is not possible to accurately report assets and liabilities as required under IAS 14.

|   | MDS             |          | MVS             |         | Group           |          |
|---|-----------------|----------|-----------------|---------|-----------------|----------|
|   | 2008            | 2007     | 2008            | 2007    | 2008            | 2007     |
|   | £'000           | £'000    | £'000           | £'000   | £'000           | £'000    |
| <b>Income statement</b>                                       |                 |          |                 |         |                 |          |
| <b>Continuing operations</b>                                  |                 |          |                 |         |                 |          |
| Revenue   | <b>33,724</b>   | 28,711   | <b>11,629</b>   | 4,189   | <b>45,353</b>   | 32,900   |
| Expenses  | <b>(30,032)</b> | (27,213) | <b>(12,872)</b> | (4,016) | <b>(42,904)</b> | (31,229) |
| Share option charge   |                 |          |                 |         | <b>(161)</b>    | (248)    |
| Amortisation of intangible assets                             |                 |          |                 |         | <b>(280)</b>    | (63)     |
| <b>Operating profit/(loss) before other income</b>            | <b>3,692</b>    | 1,498    | <b>(1,243)</b>  | 173     | <b>2,008</b>    | 1,360    |
| Other income  | <b>343</b>      | 80       | –               | –       | <b>343</b>      | 80       |
| Profit on sale of property                                    | <b>1,134</b>    | –        | –               | –       | <b>1,134</b>    | –        |
| <b>Group operating profit/(loss)</b>                          | <b>5,169</b>    | 1,578    | <b>(1,243)</b>  | 173     | <b>3,485</b>    | 1,440    |
| Net finance income  |                 |          |                 |         | <b>699</b>      | (1,164)  |
| Share of post tax loss of associate                           |                 |          |                 |         | <b>(1,453)</b>  | (711)    |
| <b>Profit/(loss) on continuing operations before taxation</b> |                 |          |                 |         | <b>2,731</b>    | (435)    |
| Taxation  |                 |          |                 |         | <b>(850)</b>    | 34       |
| <b>Profit/(loss) for the year from continuing operations</b>  |                 |          |                 |         | <b>1,881</b>    | (401)    |
| Post tax loss for the year from discontinued operations       |                 |          |                 |         | –               | (13,797) |
| <b>Profit/(loss) for the year</b>                             |                 |          |                 |         | <b>1,881</b>    | (14,198) |

## 4 Discontinued operations

|   | <b>2008</b>  | 2007            |
|---|--------------|-----------------|
|   | <b>£'000</b> | £'000           |
| Revenue   | –            | 153,030         |
| Expenses  | –            | (150,075)       |
| <b>Operating profit</b>                             | <b>–</b>     | <b>2,955</b>    |
| Loss on sale of business assets                     | –            | (7,920)         |
| Loss on sale of subsidiary undertakings             | –            | (373)           |
| <b>Loss before tax from discontinued operations</b> | <b>–</b>     | <b>(5,338)</b>  |
| Tax on loss on ordinary activities (note 7)         | –            | (1,460)         |
| Tax on sale of business assets (note 7)             | –            | (6,999)         |
| <b>Loss after tax on discontinued operations</b>    | <b>–</b>     | <b>(13,797)</b> |

## 5 Profit/(loss) for the year

|  | <b>2008</b>    | 2007   |
|--|----------------|--------|
|  | <b>£'000</b>   | £'000  |
| Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting): |                |        |
| Staff costs (note 23)  | <b>10,543</b>  | 15,368 |
| Depreciation of owned property, plant & equipment (note 12)                                | <b>4,127</b>   | 3,517  |
| Depreciation of leased property, plant & equipment (note 12)                               | <b>110</b>     | 1,288  |
| Amortisation of intangible assets  | <b>280</b>     | 63     |
| Other operating lease rentals  | <b>2,326</b>   | 2,343  |
| Foreign exchange losses/(gains)  | <b>33</b>      | (17)   |
| Profit on disposal of property, plant & equipment  | <b>(1,134)</b> | (36)   |

# Notes to the financial statements continued

## 5 Profit/(loss) for the year continued

### Auditor remuneration

During the year the group obtained the following services from the group's auditor at costs as detailed below:

|   | <b>2008</b>  | 2007       |
|---|--------------|------------|
|   | <b>£'000</b> | £'000      |
| Fees payable to company auditor for the audit of parent company and consolidated accounts | <b>65</b>    | 70         |
| Non-audit services:   |              |            |
| Fees payable to the company's auditor and its associates for other services:              |              |            |
| Tax services  | <b>58</b>    | 84         |
| Other services  | <b>47</b>    | 25         |
|   | <b>170</b>   | <b>179</b> |

## 6 Net financial expenses

|                                   | <b>2008</b>  | 2007           |
|-----------------------------------|--------------|----------------|
|                                   | <b>£'000</b> | £'000          |
| <b>Group</b>                      |              |                |
| Interest expense:                 |              |                |
| – bank loans and overdrafts       | <b>(2)</b>   | (2)            |
| – finance leases                  | <b>(80)</b>  | (194)          |
| – other loans                     | <b>(42)</b>  | (1,072)        |
| Amortisation of debt issue costs  | <b>–</b>     | (100)          |
| Finance costs                     | <b>(124)</b> | (1,368)        |
| Finance income:                   |              |                |
| – bank interest receivable        | <b>823</b>   | 204            |
| Finance income                    | <b>823</b>   | 204            |
| <b>Net finance income/(costs)</b> | <b>699</b>   | <b>(1,164)</b> |

## 7 Tax

|   | <b>2008</b>  | 2007         |
|---|--------------|--------------|
|   | <b>£'000</b> | £'000        |
| <b>(a) Analysis of charge for the year</b>                |              |              |
| United Kingdom current tax                                |              |              |
| Current tax on income for the period                      | <b>1,236</b> | 8,136        |
| Adjustment in respect of prior periods                    | <b>(575)</b> | –            |
| <b>Total current tax</b>                                  | <b>661</b>   | 8,136        |
| Deferred tax expense                                      | <b>189</b>   | 289          |
| <b>Total charge for the year</b>                          | <b>850</b>   | <b>8,425</b> |
| <b>(b) Tax on items charged to equity</b>                 |              |              |
| Current tax credit on employee share schemes              | <b>40</b>    | –            |
| Current tax charge on capital gain                        | <b>(219)</b> | –            |
| Deferred tax credit on reversal of capital gain liability | <b>120</b>   | –            |
| Deferred tax charge on employee share schemes             | <b>(104)</b> | (85)         |
| Corporation tax rate change charge                        | <b>(9)</b>   | –            |
| <b>Total tax on items charged to equity</b>               | <b>(172)</b> | <b>(85)</b>  |
| <b>(c) Factors affecting the tax charge for the year</b>  |              |              |
| Profit/(loss) before tax                                  | <b>4,184</b> | (5,062)      |
| At standard rate of corporation tax of 30% (2007: 30%)    | <b>1,255</b> | (1,519)      |
| Effects of:   |              |              |
| Adjustments to tax in respect of prior period             | <b>(575)</b> | –            |
| Expenses not deductible for tax purposes                  | <b>123</b>   | 474          |
| Capital allowances for year lower than depreciation       | –            | 275          |
| Other permanent differences                               | –            | 2,383        |
| Deferred tax not recognised                               | –            | 197          |
| Taxable gain on disposal of distribution business         | –            | 6,999        |
| Utilisation of losses                                     | <b>(132)</b> | (384)        |
| Corporation tax rate change                               | <b>179</b>   | –            |
| <b>Total charge for the year</b>                          | <b>850</b>   | <b>8,425</b> |

At 31 March 2008, the Group had accumulated tax losses of £17,000,000 (2007: £17,000,000) which should be available for offset against future trading profits of certain Group operations.

# Notes to the financial statements continued

## 8 Deferred tax

**2008**      2007  
**£'000**      £'000

The deferred tax balances included in these accounts are attributable to the following:

### Deferred tax assets

|  |              |              |
|--|--------------|--------------|
| Excess of depreciation over capital allowances | <b>2,508</b> | 2,017        |
| Employee share schemes                         | <b>127</b>   | 242          |
|  | <b>2,635</b> | <b>2,259</b> |

### Deferred tax liabilities

|                   |            |            |
|-------------------|------------|------------|
| Intangible assets | <b>351</b> | 468        |
| Revaluation gains | <b>–</b>   | 120        |
|                   | <b>351</b> | <b>588</b> |

### The movement on deferred tax balances during the year is summarised as follows:

Deferred tax charged through income statement

|   |              |              |
|---|--------------|--------------|
| Continuing operations                           | <b>(189)</b> | 34           |
| Discontinued operations                         | <b>–</b>     | (323)        |
| Deferred tax charged directly to equity         | <b>7</b>     | (85)         |
| Deferred tax on intangibles                     | <b>–</b>     | (503)        |
| Balances acquired with EEscape Holdings Limited | <b>795</b>   | –            |
|   | <b>613</b>   | <b>(877)</b> |
| Net balance brought forward                     | <b>1,671</b> | <b>2,548</b> |
| Net balance carried forward                     | <b>2,284</b> | <b>1,671</b> |

### Deferred tax charged through the income statement relates to the following:

|  |              |              |
|--|--------------|--------------|
| Excess of depreciation over capital allowances | <b>(125)</b> | (321)        |
| Employee share schemes                         | <b>(2)</b>   | (2)          |
| Intangible assets                              | <b>117</b>   | 34           |
| Change in rate of deferred taxation            | <b>(179)</b> | –            |
|  | <b>(189)</b> | <b>(289)</b> |

Deferred tax is calculated in full on temporary differences under the liability method at a rate of 28% (2007: 30%) in the United Kingdom.

Deferred tax assets have been recognised in all cases where such assets arise, as it is probable the assets will be recovered.

All movements on deferred tax balances have been recognised in income with the exception of the charges shown in note 7, which have been recognised directly in equity, and the balances acquired with EEscape Holdings Limited as shown in note 11.

## 9 Profit 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 2008 was £3,599,000 (2007: £13,965,000 loss), which includes the full write down of the remaining investments in the dormant subsidiaries of £7,049,000.

## 10 Earnings per share

|   | Earnings | 2008<br>Weighted<br>average<br>number of<br>shares | Per share<br>amount | Earnings | 2007<br>Weighted<br>average<br>number of<br>shares | Per share<br>amount |
|---|----------|--|---------------------|----------|--|---------------------|
|   | £'000    | '000   | (pence)             | £'000    | '000   | (pence)             |
| <b>Basic EPS</b>  |          |  |                     |          |  |                     |
| Profit/(loss) attributable to equity holders of the company |          |  |                     |          |  |                     |
| – Continuing operations                                     | 1,881    | 140,136  | 1.34                | (401)    | 141,330  | (0.28)              |
| – Discontinued operations                                   | –        | 140,136  | –                   | (13,797) | 141,330  | (9.76)              |
|   | 1,881    | 140,136  | 1.34                | (14,198) | 141,330  | (10.04)             |
| Effect of dilutive share options                            |          | 2,055  |                     |          | 2,230  |                     |
| <b>Diluted EPS</b>  |          |  |                     |          |  |                     |
| – Continuing operations                                     | 1,881    | 142,191  | 1.32                | (401)    | 143,560  | (0.28)              |
| – Discontinued operations                                   | –        | 142,191  | –                   | (13,797) | 143,560  | (9.61)              |
|   | 1,881    | 142,191  | 1.32                | (14,198) | 143,560  | (9.89)              |

# Notes to the financial statements continued

## 10 Earnings per share continued

|                                     | 2008              |  |                                | 2007              |  |                                |
|-------------------------------------|-------------------|--|--------------------------------|-------------------|--|--------------------------------|
|                                     | Earnings<br>£'000 | Weighted<br>average<br>number of<br>shares<br>'000 | Per share<br>amount<br>(pence) | Earnings<br>£'000 | Weighted<br>average<br>number of<br>shares<br>'000 | Per share<br>amount<br>(pence) |
| <b>Basic EPS</b>                    | <b>1,881</b>      | <b>140,136</b>                                     | <b>1.34</b>                    | (14,198)          | 141,330  | (10.04)                        |
| Effect of discontinued operations   | –                 |  | –                              | 13,797            |  | 9.76                           |
| Share based payments                | <b>88</b>         |  | <b>0.06</b>                    | 163               |  | 0.12                           |
| Amortisation of intangible assets   | <b>202</b>        |  | <b>0.14</b>                    | 45                |  | 0.03                           |
| Sale of property                    | <b>(984)</b>      |  | <b>(0.70)</b>                  | –                 |  | –                              |
| Share of post tax loss of associate | <b>1,453</b>      |  | <b>1.04</b>                    | 711               |  | 0.50                           |
| <b>Adjusted basic EPS</b>           | <b>2,640</b>      | <b>140,136</b>                                     | <b>1.88</b>                    | <b>518</b>        | <b>141,330</b>                                     | <b>0.37</b>                    |
| <b>Diluted EPS</b>                  | <b>1,881</b>      | <b>142,191</b>                                     | <b>1.32</b>                    | (14,198)          | 143,560  | (9.89)                         |
| Effect of discontinued operations   | –                 |  | –                              | 13,797            |  | 9.61                           |
| Share based payments                | <b>88</b>         |  | <b>0.06</b>                    | 163               |  | 0.11                           |
| Amortisation of intangible assets   | <b>202</b>        |  | <b>0.14</b>                    | 45                |  | 0.03                           |
| Sale of property                    | <b>(984)</b>      |  | <b>(0.69)</b>                  | –                 |  | –                              |
| Share of post tax loss of associate | <b>1,453</b>      |  | <b>1.02</b>                    | 711               |  | 0.50                           |
| <b>Adjusted diluted EPS</b>         | <b>2,640</b>      | <b>142,191</b>                                     | <b>1.85</b>                    | <b>518</b>        | <b>143,560</b>                                     | <b>0.36</b>                    |

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares.

Additional earnings per share measures are included above to give a better indication of the Group's underlying performance.

## 11 Intangible assets

Opening goodwill at 1 April 2006 arose on the Group's acquisition of the trading assets of HOLF Technologies Limited and VData Limited in 2000, Allasso UK Limited in 2003 and NetConnect Training in 2004.

The goodwill arising during 2007 resulted from the acquisition of EEscape Holdings Limited and an investment in Mobile Tornado Group plc.

Goodwill is tested at each year end for impairment with reference to the Group's recoverable amount compared to the Group's carrying value including goodwill. The recoverable amount is based on value in use calculations using pre-tax discounted cash flow projections based on the Group's strategic plan for the first five years and a growth rate thereafter of 2%.

The cash flows have been discounted using the Group's weighted average cost of capital, which for these purposes has been calculated to be approximately 12.6% before tax.

The key assumptions underpinning the strategic plan employed in the value in use calculation are that market share will not change significantly and that gross and operating margins will remain broadly constant.



## 11 Intangible assets continued

|   | Goodwill<br>£'000 | Trade name &<br>relationships<br>£'000 | Software<br>£'000 | Total<br>£'000 |
|---|-------------------|--|-------------------|----------------|
| <b>Group</b>  |                   |  |                   |                |
| At 1 April 2006   |                   |  |                   |                |
| <b>Cost and net book amount</b>                         | <b>65,104</b>     | <b>–</b>                               | <b>–</b>          | <b>65,104</b>  |
| <b>Year ended 31 March 2007</b>                         |                   |  |                   |                |
| Opening net book amount                                 | 65,104            | –                                      | –                 | 65,104         |
| Additions (note 22)                                     | 7,119             | 501                                    | 335               | 7,955          |
| Amortisation charge                                     | –                 | (38)                                   | (25)              | (63)           |
| Disposals   | (32,431)          | –                                      | –                 | (32,431)       |
| <b>Closing net book amount</b>                          | <b>39,792</b>     | <b>463</b>                             | <b>310</b>        | <b>40,565</b>  |
| <b>At 31 March 2007</b>                                 |                   |  |                   |                |
| <b>Cost</b>   | 39,792            | 501                                    | 335               | 40,628         |
| <b>Accumulated amortisation and impairment</b>          | –                 | (38)                                   | (25)              | (63)           |
| <b>Net book amount</b>                                  | <b>39,792</b>     | <b>463</b>                             | <b>310</b>        | <b>40,565</b>  |
| <b>Year ended 31 March 2008</b>                         |                   |  |                   |                |
| Opening net book amount                                 | 39,792            | 463                                    | 310               | 40,565         |
| Deferred tax asset – EEscape Holdings Limited (note 22) | (795)             | –                                      | –                 | (795)          |
| Amortisation charge                                     | –                 | (168)                                  | (112)             | (280)          |
| <b>Closing net book amount</b>                          | <b>38,997</b>     | <b>295</b>                             | <b>198</b>        | <b>39,490</b>  |
| <b>Company</b>  |                   |  |                   |                |
| At 1 April 2006   |                   |  |                   |                |
| <b>Cost and net book amount</b>                         | <b>66,084</b>     | <b>–</b>                               | <b>–</b>          | <b>66,084</b>  |
| <b>Year ended 31 March 2007</b>                         |                   |  |                   |                |
| Opening net book amount                                 | 66,084            | –                                      | –                 | 66,084         |
| Disposals   | (33,411)          | –                                      | –                 | (33,411)       |
| <b>Closing net book amount</b>                          | <b>32,673</b>     | <b>–</b>                               | <b>–</b>          | <b>32,673</b>  |
| <b>At 31 March 2007</b>                                 |                   |  |                   |                |
| <b>Cost and net book amount</b>                         | <b>32,673</b>     | <b>–</b>                               | <b>–</b>          | <b>32,673</b>  |
| <b>Year ended 31 March 2008</b>                         |                   |  |                   |                |
| Opening net book amount                                 | 32,673            | –                                      | –                 | 32,673         |
| Transferred from investments                            | 3,074             | –                                      | –                 | 3,074          |
| <b>Closing net book amount</b>                          | <b>35,747</b>     | <b>–</b>                               | <b>–</b>          | <b>35,747</b>  |

# Notes to the financial statements continued

## 12 Property, plant & equipment

|   | Freehold<br>land &<br>buildings<br>£'000 | Leasehold<br>improvements<br>£'000 | Office<br>fixtures &<br>fittings<br>£'000 | Vehicles &<br>computer<br>equipment<br>£'000 | Total<br>£'000 |
|---|--|------------------------------------|---|--|----------------|
| <b>Group</b>                            |  |                                    |   |  |                |
| <b>Cost</b>                             |  |                                    |   |  |                |
| At 1 April 2006                         | 3,850                                    | 1,862                              | 1,324                                     | 27,774                                       | 34,810         |
| Acquisitions                            | –  | –                                  | 73  | 7,371  | 7,444          |
| Additions                               | 7  | 659                                | 35  | 3,408  | 4,109          |
| Disposals                               | (1)                                      | (990)                              | (852)                                     | (14,218)                                     | (16,061)       |
| <b>At 31 March 2007</b>                 | <b>3,856</b>                             | <b>1,531</b>                       | <b>580</b>                                | <b>24,335</b>                                | <b>30,302</b>  |
| At 1 April 2007                         | 3,856                                    | 1,531                              | 580                                       | 24,335                                       | 30,302         |
| Additions                               | –  | 1,821                              | 155                                       | 2,599  | 4,575          |
| Disposals                               | (3,856)                                  | –                                  | (301)                                     | (7,856)                                      | (12,013)       |
| <b>At 31 March 2008</b>                 | <b>–</b>                                 | <b>3,352</b>                       | <b>434</b>                                | <b>19,078</b>                                | <b>22,864</b>  |
| <b>Depreciation</b>                     |  |                                    |   |  |                |
| At 1 April 2006                         | 211                                      | 1,543                              | 1,236                                     | 21,396                                       | 24,386         |
| Acquisitions                            | –  | –                                  | 63  | 6,601  | 6,664          |
| Charge for the year                     | 154                                      | 211                                | 59  | 4,381  | 4,805          |
| Disposals                               | (1)                                      | (798)                              | (837)                                     | (13,528)                                     | (15,164)       |
| <b>At 31 March 2007</b>                 | <b>364</b>                               | <b>956</b>                         | <b>521</b>                                | <b>18,850</b>                                | <b>20,691</b>  |
| At 1 April 2007                         | 364                                      | 956                                | 521                                       | 18,850                                       | 20,691         |
| Charge for the year                     | 26                                       | 143                                | 85  | 3,983  | 4,237          |
| Disposals                               | (390)                                    | –                                  | (303)                                     | (7,816)                                      | (8,509)        |
| <b>At 31 March 2008</b>                 | <b>–</b>                                 | <b>1,099</b>                       | <b>303</b>                                | <b>15,017</b>                                | <b>16,419</b>  |
| <b>Net book amount at 31 March 2008</b> | <b>–</b>                                 | <b>2,253</b>                       | <b>131</b>                                | <b>4,061</b>                                 | <b>6,445</b>   |
| Net book amount at 31 March 2007        | 3,492                                    | 575                                | 59  | 5,485  | 9,611          |

## 12 Property, plant &amp; equipment continued

|  | Freehold<br>land &<br>buildings<br>£'000 | Leasehold<br>improvements<br>£'000 | Office<br>fixtures &<br>fittings<br>£'000 | Vehicles &<br>computer<br>equipment<br>£'000 | Total<br>£'000 |
|--|--|------------------------------------|---|--|----------------|
| <b>Company</b>                             |  |                                    |   |  |                |
| <b>Cost</b>                                |  |                                    |   |  |                |
| At 1 April 2006                            | 3,850                                    | 1,862                              | 1,319                                     | 27,466                                       | 34,497         |
| Additions                                  | 7  | 659                                | 33  | 3,401  | 4,100          |
| Disposals                                  | (1)                                      | (990)                              | (852)                                     | (14,218)                                     | (16,061)       |
| <b>At 31 March 2007</b>                    | <b>3,856</b>                             | <b>1,531</b>                       | <b>500</b>                                | <b>16,649</b>                                | <b>22,536</b>  |
| At 1 April 2007                            | 3,856                                    | 1,531                              | 500                                       | 16,649                                       | 22,536         |
| Acquisitions - hive up of EEscape Holdings | –  | –                                  | 77  | 3,336  | 3,413          |
| Additions                                  | –  | 1,821                              | 155                                       | 2,578  | 4,554          |
| Disposals                                  | (3,856)                                  | –                                  | (298)                                     | (3,485)                                      | (7,639)        |
| <b>At 31 March 2008</b>                    | <b>–</b>                                 | <b>3,352</b>                       | <b>434</b>                                | <b>19,078</b>                                | <b>22,864</b>  |
| <b>Depreciation</b>                        |  |                                    |   |  |                |
| At 1 April 2006                            | 211                                      | 1,543                              | 1,236                                     | 21,085                                       | 24,075         |
| Charge for the year                        | 154                                      | 211                                | 57  | 4,221  | 4,643          |
| Disposals                                  | (1)                                      | (798)                              | (837)                                     | (13,528)                                     | (15,164)       |
| <b>At 31 March 2007</b>                    | <b>364</b>                               | <b>956</b>                         | <b>456</b>                                | <b>11,778</b>                                | <b>13,554</b>  |
| At 1 April 2007                            | 364                                      | 956                                | 456                                       | 11,778                                       | 13,554         |
| Acquisitions - hive up of EEscape Holdings | –  | –                                  | 66  | 2,661  | 2,727          |
| Charge for the year                        | 26                                       | 143                                | 79  | 3,937  | 4,185          |
| Disposals                                  | (390)                                    | –                                  | (298)                                     | (3,359)                                      | (4,047)        |
| <b>At 31 March 2008</b>                    | <b>–</b>                                 | <b>1,099</b>                       | <b>303</b>                                | <b>15,017</b>                                | <b>16,419</b>  |
| <b>Net book amount at 31 March 2008</b>    | <b>–</b>                                 | <b>2,253</b>                       | <b>131</b>                                | <b>4,061</b>                                 | <b>6,445</b>   |
| Net book amount at 31 March 2007           | 3,492                                    | 575                                | 44  | 4,871  | 8,982          |

The net book amount of Group and Company property, plant & equipment includes an amount of £790,000 (2007: £1,723,000) in respect of assets held under finance leases.

# Notes to the financial statements continued

## 13 Future commitments

At 31 March 2008, the directors had authorised capital expenditure of £2.9m of which £1.0m was contracted but not provided for (2007: nil).

At 31 March 2008 the Group's future minimum operating lease commitments were due as follows:

|                        | Land & buildings |              | Other assets |           |
|------------------------|------------------|--------------|--------------|-----------|
|                        | 2008             | 2007         | 2008         | 2007      |
|                        | £'000            | £'000        | £'000        | £'000     |
| Within one year        | 2,317            | 2,294        | 101          | 63        |
| From one to five years | 5,214            | 6,477        | 38           | 18        |
| After five years       | –                | 75           | –            | –         |
|                        | <b>7,531</b>     | <b>8,846</b> | <b>139</b>   | <b>81</b> |

The Group leases various buildings and vehicles under non-cancellable operating lease arrangements. The leases have various terms typical of lease arrangements for the particular class of asset.

## 14 Investments in subsidiaries and associates

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| <b>Shares in group undertakings</b>            |               |               |               |               |
| At 1 April                                     | –             | –             | 14,188        | 7,049         |
| Additions in the year                          |               |               |               |               |
| Subsidiary: EEscape Holdings Limited           | –             | –             | –             | 3,074         |
| Associate: Mobile Tornado Group plc            | –             | –             | 2,354         | 4,065         |
| Written off during the year                    | –             | –             | (7,049)       | –             |
| Transferred to intangible assets               | –             | –             | (3,074)       | –             |
| <b>At 31 March</b>                             | <b>–</b>      | <b>–</b>      | <b>6,419</b>  | <b>14,188</b> |
| <b>Interests in associates</b>                 |               |               |               |               |
| At 1 April                                     |               |               |               |               |
| – Net assets                                   | (1,736)       | –             | –             | –             |
| – Goodwill and intangible assets               | 5,359         | –             | –             | –             |
| Additions                                      |               |               |               |               |
| – Net assets                                   | (117)         | (1,085)       | –             | –             |
| – Goodwill                                     | 2,471         | 4,460         | –             | –             |
| – Intangible assets                            | –             | 959           | –             | –             |
| Share of losses suffered                       | (1,763)       | (651)         | –             | –             |
| <b>At 31 March</b>                             | <b>–</b>      | <b>–</b>      | <b>–</b>      | <b>–</b>      |
| – Net assets                                   | (3,616)       | (1,736)       | –             | –             |
| – Goodwill and intangible assets               | 7,830         | 5,419         | –             | –             |
|  | <b>4,214</b>  | <b>3,683</b>  | <b>–</b>      | <b>–</b>      |
| <b>Accumulated amortisation and impairment</b> |               |               |               |               |
| At 1 April                                     | –             | –             | –             | –             |
| Charge for the year                            | (138)         | (60)          | –             | –             |
| <b>At 31 March</b>                             | <b>(138)</b>  | <b>(60)</b>   | <b>–</b>      | <b>–</b>      |
| <b>Net book amount at 31 March</b>             |               |               |               |               |
| – Net assets                                   | (3,616)       | (1,736)       | –             | –             |
| – Goodwill and intangible assets               | 7,692         | 5,359         | –             | –             |
| <b>Total investments</b>                       | <b>4,076</b>  | <b>3,623</b>  | <b>6,419</b>  | <b>14,188</b> |

# Notes to the financial statements continued

## 14 Investments in subsidiaries and associates continued

Investments in Group undertakings are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings. The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. A list of principal subsidiary undertakings and associates is given below.

Details of the principal investments at 31 March 2008 in which the Group or Company holds more than 20% of the nominal value of ordinary share capital are as follows:

| <b>Subsidiary undertakings</b>         | <b>Country of incorporation or registration</b> | <b>Nature of business</b> | <b>Year end</b> | <b>Group proportion held</b> | <b>Company proportion held</b> |
|--|---|---------------------------|-----------------|------------------------------|--------------------------------|
| EEscape Holdings Limited               | England   | Telecoms                  | 31 March        | 100%                         | 100%                           |
| Evoxus Limited                         | England   | Telecoms                  | 31 March        | 100%                         | –                              |
| Mobile Tornado Group plc               | England   | Telecoms                  | 31 December     | 49.9%                        | 49.9%                          |
| Call-Link Communications Limited       | England   | Dormant                   | 31 March        | 100%                         | –                              |
| Allasso AG                             | Switzerland                                     | Dormant                   | 31 March        | 100%                         | 100%                           |
| Allasso Limited                        | England   | Dormant                   | 31 March        | 100%                         | 100%                           |
| HOLF Technologies Limited              | England   | Dormant                   | 31 March        | 100%                         | 100%                           |
| VData Limited                          | England   | Dormant                   | 31 March        | 100%                         | 100%                           |
| Integrated Technology (Europe) Limited | England   | Dormant                   | 31 March        | 100%                         | –                              |

## 15 Inventories

|                       | <b>Group</b> |              | <b>Company</b> |              |
|-----------------------|--------------|--------------|----------------|--------------|
|                       | <b>2008</b>  | <b>2007</b>  | <b>2008</b>    | <b>2007</b>  |
|                       | <b>£'000</b> | <b>£'000</b> | <b>£'000</b>   | <b>£'000</b> |
| <b>Finished goods</b> | <b>105</b>   | 92           | <b>105</b>     | 41           |

The cost of inventory recognised as an expense in 'operating expenses' amounted to £2,446,000 (2007: £2,413,000).

## 16 Trade and other receivables

|  | Group         |               | Company        |               |
|--|---------------|---------------|----------------|---------------|
|  | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000  | 2007<br>£'000 |
| Trade receivables  | <b>7,677</b>  | 7,662         | <b>7,548</b>   | 5,092         |
| Less: provision for impairment of trade receivables          | <b>(312)</b>  | (228)         | <b>(183)</b>   | (77)          |
| Trade receivables - net                                      | <b>7,365</b>  | 7,434         | <b>7,365</b>   | 5,015         |
| Other receivables  | <b>36</b>     | 3,451         | <b>36</b>      | 3,451         |
| Prepayments and accrued income                               | <b>2,751</b>  | 3,685         | <b>2,693</b>   | 2,948         |
| Deferred cost of sales                                       | <b>382</b>    | 325           | –              | –             |
| Amounts owed by Group undertakings                           | –             | –             | <b>6,718</b>   | 5,484         |
|  | <b>10,534</b> | 14,895        | <b>16,812</b>  | 16,898        |
| Less non-current portion: amounts owed by Group undertakings | –             | –             | <b>(6,718)</b> | (5,484)       |
| <b>Current portion</b>                                       | <b>10,534</b> | 14,895        | <b>10,094</b>  | 11,414        |

Amounts owed by Group undertakings are unsecured and have no fixed repayment date.

The ageing of the Group's year end overdue receivables is as follows:

|                     | Group         |               | Company       |               |
|---------------------|---------------|---------------|---------------|---------------|
|                     | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| <b>Impaired</b>     |               |               |               |               |
| Over 6 months       | <b>323</b>    | 268           | <b>194</b>    | 90            |
|                     | <b>323</b>    | 268           | <b>194</b>    | 90            |
| <b>Not impaired</b> |               |               |               |               |
| Less than 3 months  | <b>6,984</b>  | 6,972         | <b>6,984</b>  | 4,646         |
| 3 to 6 months       | <b>370</b>    | 131           | <b>370</b>    | 65            |
| Over 6 months       | –             | 291           | –             | 291           |
|                     | <b>7,354</b>  | 7,394         | <b>7,354</b>  | 5,002         |

The individually impaired receivables relate to customers in unexpectedly difficult economic circumstances. The overdue receivables against which no provision has been made relate to a number of customers for whom there is no recent history of default or any other indication that settlement will not be forthcoming.

The carrying amounts of the Group's receivables are all denominated in sterling.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

# Notes to the financial statements continued

## 16 Trade and other receivables continued

Movement on the Group's provision for impairment of trade receivables are as follows:

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| At 1 April   | 228           | 350           | 77            | 350           |
| Provision for receivables impairment                     | 255           | 17            | 120           | –             |
| Receivables written off during the year as uncollectible | (171)         | (206)         | (113)         | (203)         |
| Unused amounts reversed                                  | –             | (79)          | –             | (70)          |
| Acquisitions   | –             | 146           | 99            | –             |
|  | <b>312</b>    | <b>228</b>    | <b>183</b>    | <b>77</b>     |

Amounts charged to the income statement are included within cost of sales. The other classes of receivables do not contain impaired assets.

## 17 Trade and other payables

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| Trade payables   | 2,111         | 3,667         | 2,036         | 2,482         |
| Other creditors  | 151           | 210           | 151           | 190           |
| Accruals   | 3,560         | 5,522         | 3,734         | 3,767         |
| Deferred income  | 874           | 1,195         | 445           | 488           |
| Other taxation and social security                           | 607           | 904           | 622           | 706           |
| Amounts owed to Group undertakings                           | –             | –             | 9,419         | 9,419         |
|  | <b>7,303</b>  | <b>11,498</b> | <b>16,407</b> | <b>17,052</b> |
| Less non-current portion: amounts owed to Group undertakings | –             | –             | (9,419)       | (9,419)       |
| <b>Current portion</b>                                       | <b>7,303</b>  | <b>11,498</b> | <b>6,988</b>  | <b>7,633</b>  |

Amounts owed to Group undertakings are unsecured and have no fixed repayment date.



## 18 Borrowings, other financial liabilities and other financial assets

|                         | Group         |               | Company       |               |
|-------------------------|---------------|---------------|---------------|---------------|
|                         | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| <b>Current</b>          |               |               |               |               |
| Other borrowings        | –             | 1,181         | –             | –             |
| Finance leases          | 567           | 691           | 567           | 586           |
|                         | <b>567</b>    | 1,872         | <b>567</b>    | 586           |
| <b>Non-current</b>      |               |               |               |               |
| Other borrowings        | –             | –             | –             | –             |
| Finance leases          | 321           | 594           | 321           | 434           |
|                         | <b>321</b>    | 594           | <b>321</b>    | 434           |
| <b>Total borrowings</b> | <b>888</b>    | 2,466         | <b>888</b>    | 1,020         |

|                         | Group         |               | Company       |               |
|-------------------------|---------------|---------------|---------------|---------------|
|                         | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| <b>Other borrowings</b> |               |               |               |               |
| In one year or less     | –             | 1,181         | –             | –             |
|                         | –             | 1,181         | –             | –             |

|                            | Group         |               | Company       |               |
|----------------------------|---------------|---------------|---------------|---------------|
|                            | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| <b>Finance leases</b>      |               |               |               |               |
| In one year or less        | 567           | 691           | 567           | 586           |
| Between one and two years  | 279           | 456           | 279           | 351           |
| Between two and five years | 42            | 138           | 42            | 83            |
|                            | <b>888</b>    | 1,285         | <b>888</b>    | 1,020         |

There is no significant difference between the minimum lease payments at the balance sheet date and their present value.

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.

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

## 18 Borrowings, other financial liabilities and other financial assets 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 5 year term loan of £2.6m and a 3 year revolving credit facility of £2.5m (2007: invoice discounting facility of £1,750,000), of which £nil (2007: £1,181,000) was used as at 31 March 2008.

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 £10,085,000 (2007: £12,782,000) as follows:

|                 | Floating rate |               |
|-----------------|---------------|---------------|
|                 | 2008<br>£'000 | 2007<br>£'000 |
| <b>Currency</b> |               |               |
| Sterling        | 10,007        | 11,853        |
| US dollar       | 5             | 76            |
| Euro            | 73            | 853           |
|                 | <b>10,085</b> | <b>12,782</b> |

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 (2007: £nil).

### Interest rate risk profile of financial liabilities

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

|  | Sterling      |               |
|--|---------------|---------------|
|  | 2008<br>£'000 | 2007<br>£'000 |
| Floating rate other borrowings                                   | –             | 1,181         |
| Fixed rate finance leases  | 888           | 1,285         |
| Deferred shares  | –             | 480           |
| <b>Total</b>   | <b>888</b>    | <b>2,946</b>  |
| Weighted average fixed interest rate                             | 10.43%        | 10.84%        |
| Weighted average period for which rate is fixed                  | 1.5 years     | 1.2 years     |
| Weighted average period to maturity on which no interest is paid | –             | –             |

Financial liabilities include secured finance leases.

## 18 Borrowings, other financial liabilities and other financial assets continued

### 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:

|                          | 2008<br>£'000 | 2007<br>£'000 |
|--------------------------|---------------|---------------|
| Expiring within one year | 5,100         | 3,769         |

### 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 2008 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.

|  | 2008<br>£'000 | 2007<br>£'000 |
|--|---------------|---------------|
| Functional currency of operation: Sterling |               |               |
| US Dollar liabilities (net)                | (93)          | (105)         |
| Euro assets (net)                          | 6             | 829           |
|  | (87)          | 724           |
| Functional currency of operation: Euro     |               |               |
| US Dollar liabilities (net)                | (89)          | (89)          |
|  | (89)          | (89)          |

### Hedges

The Group does not operate any hedging instruments.

# Notes to the financial statements continued

## 19 Share capital and share premium

|                               | Number of<br>shares<br>'000 | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Total<br>£'000   |
|-------------------------------|-----------------------------|---------------------------|---------------------------|------------------|
| <b>Group and Company</b>      |                             |                           |                           |                  |
| At 1 April 2006               | 189,112                     | 1,891                     | 188,668                   | <b>190,559</b>   |
| Employee share options:       |                             |                           |                           |                  |
| – proceeds from shares issued | 773                         | 8                         | 175                       | <b>183</b>       |
| <b>As at 31 March 2007</b>    | <b>189,885</b>              | <b>1,899</b>              | <b>188,843</b>            | <b>190,742</b>   |
| Employee share options:       |                             |                           |                           |                  |
| – proceeds from shares issued | 519                         | 5                         | 4                         | <b>9</b>         |
| Capital restructure           | (48,000)                    | (480)                     | (132,534)                 | <b>(133,014)</b> |
| Purchase of ordinary shares   | (10,576)                    | (106)                     | (3,596)                   | <b>(3,702)</b>   |
| <b>As at 31 March 2008</b>    | <b>131,829</b>              | <b>1,318</b>              | <b>52,717</b>             | <b>54,035</b>    |

The total authorised number of ordinary shares is 252 million (2007: 252 million) with a par value of 1p per share (2007: 1p per share), and 48 million deferred shares (2007: 48 million shares) with a par value of 1p per share (2007: 1p per share). All issued shares are fully paid.

## 19 Share capital and share premium continued

**Potential issues of ordinary shares**

Certain employees hold options to subscribe for shares in the Company at prices ranging from 1.8p to 337.0p 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    |                   | Exercise price<br>(pence) | Earliest exercise date | Expiry date       |
|--------------------------|------------------|-------------------|---------------------------|------------------------|-------------------|
|                          | 2008             | 2007              |                           |                        |                   |
| HOLF scheme              | 3,380,012        | 5,465,284         | 43.3                      | 23/12/02               | 23/12/09          |
| VData scheme             | 1,695,062        | 2,214,104         | 1.8                       | 07/01/03               | 07/01/10          |
| InTechnology scheme      | 353,000          | 1,204,321         | 50.5                      | 19/07/05               | 19/07/12          |
| InTechnology scheme      | 40,000           | 808,000           | 61.0                      | 01/08/06               | 01/08/13          |
| InTechnology scheme      | 500,000          | 500,000           | 65.0                      | 15/07/03-11/06/05      | 15/07/06-11/06/12 |
| InTechnology scheme      | –                | 177,000           | 172.0                     | 15/03/04-20/12/04      | 15/03/11-20/12/11 |
| InTechnology scheme      | 500,000          | 500,000           | 279.0                     | 15/03/04-01/05/04      | 15/03/11-01/05/11 |
| InTechnology scheme      | 50,000           | 50,000            | 327.0                     | 02/01/04               | 02/01/11          |
| InTechnology scheme      | 50,000           | 50,000            | 337.0                     | 01/11/03               | 01/11/10          |
| InTechnology SAYE scheme | 267,195          | 301,305           | 50.0                      | 01/04/08               | 01/10/08          |
| InTechnology scheme      | 70,000           | 70,000            | 46.0                      | 21/06/08               | 21/06/15          |
| InTechnology scheme      | 1,200,000        | 1,200,000         | 38.5                      | 03/07/09               | 03/07/16          |
| InTechnology scheme      | 1,500,000        | 2,050,000         | 37.0                      | 12/07/09               | 12/07/16          |
|                          | <b>9,605,269</b> | <b>14,590,014</b> |                           |                        |                   |

Further details of the share option schemes in operation are given under the heading 'Interests in share options' in the Remuneration Report on pages 24 and 25.

# Notes to the financial statements continued

## 20 Share based payments

Options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant. The contractual life of an option is 10 years. Options granted will become exercisable on the third anniversary of the date of grant. Exercise of an option is subject to continued employment. Options were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted and the assumptions used in the calculations are as follows:

| Grant date                                       | 01/08/2003 | 01/04/2005 | 21/06/2005 | 03/07/2006 | 12/07/2006 |
|--|------------|------------|------------|------------|------------|
| Share price at grant date (pence)                | 61.0       | 50.0       | 46.0       | 38.5       | 37.0       |
| Exercise price (pence)                           | 61.0       | 50.0       | 46.0       | 38.5       | 37.0       |
| Number of employees                              | 1          | 30         | 1          | 2          | 4          |
| Shares under option                              | 40,000     | 267,195    | 70,000     | 1,200,000  | 1,500,000  |
| Vesting period (years)                           | 3          | 3          | 3          | 3          | 3          |
| Expected volatility                              | 71%        | 22%        | 23%        | 34%        | 34%        |
| Option life (years)                              | 10         | 10         | 10         | 10         | 10         |
| Expected life (years)                            | 5          | 5          | 5          | 5          | 5          |
| Risk-free rate                                   | 5.37%      | 5.37%      | 5.37%      | 5.37%      | 5.37%      |
| Expected dividends expressed as a dividend yield | 0.00%      | 0.00%      | 0.00%      | 0.00%      | 0.00%      |
| Fair value per option (pence)                    | 0.36       | 0.23       | 0.26       | 0.19       | 0.19       |

## 20 Share based payments continued

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to 31 March 2008 is shown below:

|                         | 2008           |   | 2007           |   |
|-------------------------|----------------|---|----------------|---|
|                         | Number<br>'000 | Weighted<br>average<br>exercise<br>price<br>pence | Number<br>'000 | Weighted<br>average<br>exercise<br>price<br>pence |
| Outstanding at 1 April  | 14,590         | 49.8  | 16,944         | 55.0  |
| Granted                 | –              | –   | 3,250          | 37.5  |
| Forfeited               | (4,466)        | 52.1  | (4,831)        | 54.8  |
| Exercised               | (519)          | 1.8   | (773)          | 23.6  |
| Outstanding at 31 March | 9,605          | 51.3  | 14,590         | 49.8  |
| Exercisable at 31 March | 6,568          | 57.1  | 10,969         | 53.5  |

No options were granted in the year. The weighted average fair value of options granted in 2007 was £609,650.

| Range of<br>exercise<br>prices<br>pence | Weighted<br>average<br>exercise<br>price<br>pence | 2008                        |                                     |             | Weighted<br>average<br>exercise<br>price<br>pence | 2007                        |                                     |             |
|---|---|-----------------------------|-------------------------------------|-------------|---|-----------------------------|-------------------------------------|-------------|
|   |   | Number<br>of shares<br>'000 | Weighted average<br>remaining life: |             |   | Number<br>of shares<br>'000 | Weighted average<br>remaining life: |             |
|   |   |                             | Expected                            | Contractual |   |                             | Expected                            | Contractual |
| 0.0-50.0                                | 33.0  | 8,112                       | 1.1                                 | 4.2         | 33.7  | 11,301                      | 1.2                                 | 4.9         |
| 50.0-100.0                              | 59.1  | 893                         | –                                   | 4.0         | 56.8  | 2,512                       | 0.3                                 | 5.3         |
| 100.0-150.0                             | –   | –                           | –                                   | –           | –   | –                           | –                                   | –           |
| 150.0-200.0                             | –   | –                           | –                                   | –           | 172.0   | 177                         | –                                   | 5.0         |
| 200.0-250.0                             | –   | –                           | –                                   | –           | –   | –                           | –                                   | –           |
| 250.0-300.0                             | 279.0   | 500                         | –                                   | 3.0         | 279.0   | 500                         | –                                   | 4.0         |
| 300.0-350.0                             | 332.0   | 100                         | –                                   | 3.0         | 332.0   | 100                         | –                                   | 4.0         |

The weighted average share price during the period for options exercised over the year was 1.8p (2007: 23.6p). The total charge for the year relating to employee share based payment plans was £161,000 (2007: £248,000), all of which related to equity-settled share based payment transactions. After deferred tax, the total charge was £88,000 (2007: £163,000).

# Notes to the financial statements continued

## 21 Cash generated from operations

|  | Group          |               | Company        |               |
|--|----------------|---------------|----------------|---------------|
|  | 2008<br>£'000  | 2007<br>£'000 | 2008<br>£'000  | 2007<br>£'000 |
| <b>Continuing operations</b>                       |                |               |                |               |
| Operating profit/(loss)                            | <b>3,485</b>   | 1,440         | <b>(3,344)</b> | 1,159         |
| Adjustments for:                                   |                |               |                |               |
| Depreciation                                       | <b>4,237</b>   | 4,231         | <b>4,185</b>   | 4,069         |
| Profit on sale of property, plant & equipment      | <b>(1,134)</b> | (35)          | <b>(1,134)</b> | (35)          |
| Investment write off                               | –              | –             | <b>(7,049)</b> | –             |
| Amortisation of intangibles                        | <b>280</b>     | 63            | –              | –             |
| Exchange movements                                 | <b>(33)</b>    | (17)          | <b>(33)</b>    | (17)          |
| Share option non cash charge                       | <b>161</b>     | 164           | <b>161</b>     | 164           |
| Changes in working capital                         |                |               |                |               |
| (Increase)/decrease in inventories                 | <b>(13)</b>    | 211           | <b>(64)</b>    | 207           |
| Decrease/(increase) in trade and other receivables | <b>1,736</b>   | 3,540         | <b>(2,733)</b> | (904)         |
| Decrease in trade and other payables               | <b>(4,195)</b> | (4,193)       | <b>(807)</b>   | (5,236)       |
| <b>Cash generated from continuing operations</b>   | <b>4,524</b>   | 5,404         | <b>3,280</b>   | (593)         |
| <b>Discontinued operations</b>                     |                |               |                |               |
| Loss before tax                                    | –              | (5,338)       | –              | (5,440)       |
| Adjustments for:                                   |                |               |                |               |
| Depreciation                                       | –              | 574           | –              | 574           |
| Profit on sale of property, plant & equipment      | –              | (1)           | –              | (1)           |
| Impairment of goodwill                             | –              | 7,752         | –              | 8,772         |
| Exchange movements                                 | –              | 34            | –              | 34            |
| Share option non cash charge                       | –              | 23            | –              | 23            |
| Changes in working capital                         |                |               |                |               |
| Decrease in inventories                            | –              | 6,374         | –              | 6,374         |
| Decrease in trade and other receivables            | <b>1,819</b>   | 56,713        | <b>1,819</b>   | 56,713        |
| Decrease in trade and other payables               | –              | (59,098)      | –              | (59,098)      |
| <b>Cash generated from discontinued operations</b> | <b>1,819</b>   | 7,033         | <b>1,819</b>   | 7,951         |
| <b>Cash generated from operations</b>              | <b>6,343</b>   | 12,437        | <b>5,099</b>   | 7,358         |



## 22 Acquisitions

On 9 January 2007 the Group purchased 100% of the share capital of EEscape Holdings Limited for a total consideration of £3.0m. The total adjustments required to the book values of the assets and liabilities acquired in order to present the net assets at fair values in accordance with group accounting principles are set out below together with the resultant amount of goodwill and intangible assets arising.

|   | Book value<br>£'000 | Consistency of accounting policy<br>£'000 | Deferred tax asset<br>£'000 | Other<br>£'000 | Fair value<br>£'000 |
|---|---------------------|---|-----------------------------|----------------|---------------------|
| Property, plant & equipment                                       | 1,042               | (92)                                      |                             | (169)          | 781                 |
| Trade name & relationships<br>(included in intangibles) (note 11) | –                   |   |                             | 501            | 501                 |
| Software (included in intangibles) (note 11)                      | –                   |   |                             | 335            | 335                 |
| Inventories   | 55                  |   |                             |                | 55                  |
| Receivables   | 3,088               |   | 561                         |                | 3,649               |
| Cash and cash equivalents   | 2                   |   |                             |                | 2                   |
| Payables  | (3,552)             | 104                                       |                             | 20             | (3,428)             |
| Borrowings  | (5,145)             |   |                             |                | (5,145)             |
| <b>Net assets acquired</b>  | <b>(4,510)</b>      | <b>12</b>                                 | <b>561</b>                  | <b>687</b>     | <b>(3,250)</b>      |
| Goodwill (note 11)  |                     |   |                             |                | 6,324               |
| <b>Total consideration</b>  |                     |   |                             |                | <b>3,074</b>        |

The goodwill is supported principally by the cost saving synergies arising as a result of bringing EEscape within InTechnology's existing structure. Other factors supporting the goodwill include (i) the acquisition of a skilled workforce, and (ii) the fact that EEscape's product portfolio complements InTechnology's existing product offering.

## 23 Employee information

Group employment costs including Executive Directors were:

|  | Group         |               | Company       |               |
|--|---------------|---------------|---------------|---------------|
|  | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| Wages and salaries                       | 9,163         | 13,233        | 8,907         | 12,963        |
| Social security costs                    | 1,099         | 1,783         | 1,064         | 1,609         |
| Pension costs                            | 193           | 189           | 175           | 159           |
| Cost of employee share schemes (note 20) | 88            | 163           | 88            | 163           |
|  | <b>10,543</b> | <b>15,368</b> | <b>10,234</b> | <b>14,894</b> |

# Notes to the financial statements continued

## 23 Employee information continued

| Average employee numbers | Group          |                | Company        |                |
|--------------------------|----------------|----------------|----------------|----------------|
|                          | 2008<br>Number | 2007<br>Number | 2008<br>Number | 2007<br>Number |
| Sales                    | 33             | 95             | 33             | 92             |
| Technical                | 30             | 40             | 30             | 39             |
| Operations               | 80             | 67             | 75             | 66             |
| Administration           | 57             | 102            | 55             | 97             |
|                          | <b>200</b>     | <b>304</b>     | <b>193</b>     | <b>294</b>     |

As required by the Companies Act 1985, the figures disclosed above are weighted averages based on the number of employees at each month end.

At 31 March 2008 the Group had 201 (2007:183) employees in total.

| Key management compensation including directors | Group         |               | Company       |               |
|---|---------------|---------------|---------------|---------------|
|   | 2008<br>£'000 | 2007<br>£'000 | 2008<br>£'000 | 2007<br>£'000 |
| Short term employee benefits                    | 2,524         | 3,452         | 2,467         | 3,365         |
| Post employment benefits                        | 83            | 97            | 80            | 93            |
| Share based payments                            | 105           | 94            | 105           | 94            |
|   | <b>2,712</b>  | <b>3,643</b>  | <b>2,652</b>  | <b>3,552</b>  |

## 24 Directors' remuneration

Detailed information concerning directors' remuneration, interests and options is shown in the parts of the directors' remuneration report subject to audit on pages 21 to 25 which form part of the Annual Report and Financial Statements.

## 25 Related party transactions

### Group

Peter Wilkinson is a shareholder in the ultimate parent company of Planetfootball.com Limited, BSkyB. InTechnology sold services totalling £324,000 (2007: £204,000) to Planetfootball.com Limited in the year. As at 31 March 2008 InTechnology was owed £nil (2007: £nil) by Planetfootball.com Limited.

Peter Wilkinson is a shareholder in YooMedia plc. InTechnology sold services totalling £388,000 (2007: £361,000) to YooMedia plc in the year. As at 31 March 2008 InTechnology was owed £38,000 (2007: £364,000) by YooMedia plc.

Peter Wilkinson, Richard James and Andrew Kaberry are shareholders in Mobile Tornado Group plc, an AIM listed company in which InTechnology owns 49.9 per cent of the issued ordinary share capital and all the issued cumulative convertible redeemable preference shares. Peter Wilkinson is non-executive Chairman and Richard James is a Director and Company Secretary of Mobile Tornado Group. InTechnology sold services totalling £125,000 (2007: £81,000) to Mobile Tornado Group in the year. As at 31 March 2008 InTechnology was owed £50,000 (2007: £36,000) by Mobile Tornado Group.

Included within other creditors is a loan note of £121,850 (2007: £130,850) payable to a member of the Company's management team, Glenn Tookey. This is repayable on demand and bears interest based on the Bank of England base rate.

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

## 25 Related party transactions continued

### Company

EEscape Holdings Limited was wholly acquired by InTechnology on 9 January 2007 and became a dormant subsidiary on 1 June 2007. InTechnology sold services totalling £71,000 to EEscape Holdings Limited and its subsidiaries (2007: £399,000), and purchased services totalling £nil (2007: £113,000).

## 26 Ultimate controlling party

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

## 27 Transition to International Financial Reporting Standards

This is the first year the Group and Company have presented their financial statements under IFRS. The following disclosures are required in the year of transition. The last financial statements under UK GAAP were for the year ended 31 March 2006 and the date of transition to IFRS was therefore 1 April 2006.

### Reclassifications

- Under UK GAAP excess depreciation on the revalued freehold land and buildings was set off against a revaluation reserve. Under IFRS 1 the Group has elected to use the revalued amounts as the deemed cost of these assets and the balance on the revaluation reserve is transferred to retained earnings.
- Deferred tax has been reanalysed as a non-current asset.
- All amounts owed by/to Group undertakings have been reanalysed as non-current assets/liabilities.
- In accordance with IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations” the results of the disposed Distribution businesses and the loss on sale have been disclosed on a single line at the bottom of the income statement.

### IAS 12 “Current Taxes”

There are a number of differences in the way that deferred tax is calculated under IFRS compared to UK GAAP. This has given rise to the adjustments as detailed below:

#### (i) *Revaluation of property*

Under UK GAAP no deferred tax was recognised when the freehold land and buildings were revalued. IFRS requires that deferred tax is recognised upon revaluation, accordingly deferred tax of £120,000 has been recognised in the revaluation reserve at 1 April 2006.

#### (ii) *Share options*

Under UK GAAP deferred tax is recognised on the charge for share based payments in the profit and loss account. Under IFRS deferred tax is calculated on the best estimate of the potential tax deduction available in the future. Accordingly deferred tax on share options has been recalculated under IFRS as follows:

|         | <b>1 April<br/>2006<br/>£'000</b> | <b>31 March<br/>2007<br/>£'000</b> |
|---------|-----------------------------------|------------------------------------|
| UK GAAP | 174                               | 249                                |
| IFRS    | 325                               | 240                                |

# Notes to the financial statements continued

## 27 Transition to International Financial Reporting Standards continued

### (iii) Other adjustments

Adjustments have also arisen on deferred tax relating to capital allowances, giving rise to the following adjustments which have resulted in an increase in the deferred tax held on the balance sheet:

|                   | <b>1 April<br/>2006<br/>£'000</b> | <b>31 March<br/>2007<br/>£'000</b> |
|-------------------|-----------------------------------|------------------------------------|
| UK GAAP           | 1,424                             | 1,719                              |
| IFRS              | 1,762                             | 2,017                              |
| <b>Adjustment</b> | <b>338</b>                        | <b>298</b>                         |

### IFRS 3 "Business Combinations" and IAS 38 "Intangible Assets"

IFRS 3 deals with accounting for business combinations including goodwill and intangible fixed assets.

Under UK GAAP, the Group adopted FRS 10 "Goodwill and intangible assets" from 26 January 2000 and goodwill arising on acquisitions after this date was capitalised and amortised over its useful economic life, which was presumed to be twenty years. In addition, the Group tested for impairment when there was an indication that the carrying value of an asset might be impaired.

Under IAS 38 this policy has been replaced by impairment tests performed annually or whenever there is an indication that the carrying value of an asset might be impaired. Goodwill is no longer amortised.

At the transition date, the Group had goodwill assets with a net book value of £65,104,000, which under the transitional arrangements laid down in IFRS 1 was deemed to be the costs carried forward for these assets from that date. £32,431,000 was disposed of in 2007 with the Distribution division.

During the year ended 31 March 2007, under UK GAAP, a goodwill amortisation charge of £2,280,000 was booked for continuing operations, which has been credited back to the income statement under IFRS.

During the year ended 31 March 2007 the Group completed the acquisition of EEscape Holdings Limited on 9 January 2007 and also made an investment in Mobile Tornado Group plc on 23 October 2006. The accounting treatment of these transactions has therefore been reviewed in accordance with the requirements of IFRS 3. As a result of this review, intangible assets totalling £1,795,000 have been separately identified and goodwill previously recognised under UK GAAP has been reduced by the corresponding net amount. The newly identified intangible assets are being amortised over three years for EEscape Holdings Limited and seven years for Mobile Tornado Group plc, resulting in a charge to the income statement of £88,000 for the year ended 31 March 2007.

### Adjustments

Adjustments have been made to the opening balance sheet under UK GAAP in relation to errors in accounting for share based payments and elimination of balances with dormant group companies. The effect of this is shown in the adjustments column.

### IAS 7 "Cash Flow Statements"

The adoption of IFRS does not affect the Group's underlying cash flows, however the presentation of the cash flow statement is somewhat different from that required under UK GAAP.

### Reconciliations between IFRS and UK GAAP

The following reconciliations provide a quantification of the effect of the transition to IFRS on total equity at the transition date, being 1 April 2006, and on total equity and net income at 31 March 2007 as reported in these financial statements.

## 27.1 Restatement of the Group consolidated balance sheet as at 1 April 2006

|                                   | Previous<br>GAAP | Reclassifications | Deferred<br>taxation<br>effect of<br>transition<br>to IFRS | IFRS           |
|-----------------------------------|------------------|-------------------|--|----------------|
|                                   | £'000            | £'000             | £'000  | £'000          |
| <b>Assets</b>                     |                  |                   |  |                |
| <b>Non-current assets</b>         |                  |                   |  |                |
| Goodwill                          | 65,104           | –                 | –  | 65,104         |
| Property, plant & equipment       | 10,424           | –                 | –  | 10,424         |
| Deferred tax assets               | –                | 2,178             | 369  | 2,547          |
|                                   | <b>75,528</b>    | <b>2,178</b>      | <b>369</b>   | <b>78,075</b>  |
| <b>Current assets</b>             |                  |                   |  |                |
| Inventories                       | 6,622            | –                 | –  | 6,622          |
| Trade and other receivables       | 89,041           | (2,178)           | –  | 86,863         |
| Current tax assets                | 380              | –                 | –  | 380            |
| Cash and cash equivalents         | 12,719           | –                 | –  | 12,719         |
|                                   | <b>108,762</b>   | <b>(2,178)</b>    | <b>–</b>   | <b>106,584</b> |
| <b>Liabilities</b>                |                  |                   |  |                |
| <b>Current liabilities</b>        |                  |                   |  |                |
| Trade and other payables          | (72,129)         | –                 | –  | (72,129)       |
| Borrowings                        | (28,156)         | –                 | –  | (28,156)       |
| <b>Net current assets</b>         | <b>8,477</b>     | <b>(2,178)</b>    | <b>–</b>   | <b>6,299</b>   |
| <b>Non-current liabilities</b>    |                  |                   |  |                |
| Borrowings                        | (4,015)          | –                 | –  | (4,015)        |
| <b>Net assets</b>                 | <b>79,990</b>    | <b>–</b>          | <b>369</b>   | <b>80,359</b>  |
| <b>Shareholders' equity</b>       |                  |                   |  |                |
| Ordinary shares                   | 1,891            | –                 | –  | 1,891          |
| Share premium                     | 188,668          | –                 | –  | 188,668        |
| Revaluation reserve               | 1,646            | (1,526)           | (120)  | –              |
| Share option reserve              | 581              | –                 | 325  | 906            |
| Retained earnings                 | (112,796)        | 1,526             | 164  | (111,106)      |
| <b>Total shareholders' equity</b> | <b>79,990</b>    | <b>–</b>          | <b>369</b>   | <b>80,359</b>  |

# Notes to the financial statements continued

## 27.2 Restatement of the Company balance sheet as at 1 April 2006

|   | Previous<br>GAAP | Reclassifications | Deferred<br>taxation<br>effect of<br>transition<br>to IFRS | IFRS           |
|---|------------------|-------------------|--|----------------|
|   | £'000            | £'000             | £'000  | £'000          |
| <b>Assets</b>                                       |                  |                   |  |                |
| <b>Non-current assets</b>                           |                  |                   |  |                |
| Goodwill  | 66,084           | –                 | –  | 66,084         |
| Property, plant & equipment                         | 10,422           | –                 | –  | 10,422         |
| Investment in subsidiary and associate undertakings | 7,049            | –                 | –  | 7,049          |
| Deferred tax assets                                 | –                | 2,178             | 369  | 2,547          |
| Trade and other receivables                         | 1,455            | 195               | –  | 1,650          |
|   | <b>85,010</b>    | <b>2,373</b>      | <b>369</b>   | <b>87,752</b>  |
| <b>Current assets</b>                               |                  |                   |  |                |
| Inventories   | 6,622            | –                 | –  | 6,622          |
| Trade and other receivables                         | 88,695           | (2,373)           | –  | 86,322         |
| Current tax assets                                  | 380              | –                 | –  | 380            |
| Cash and cash equivalents                           | 12,661           | –                 | –  | 12,661         |
|   | <b>108,358</b>   | <b>(2,373)</b>    | <b>–</b>   | <b>105,985</b> |
| <b>Liabilities</b>                                  |                  |                   |  |                |
| <b>Current liabilities</b>                          |                  |                   |  |                |
| Trade and other payables                            | (72,631)         | –                 | –  | (72,631)       |
| Borrowings  | (28,156)         | –                 | –  | (28,156)       |
| <b>Net current assets</b>                           | <b>7,571</b>     | <b>(2,373)</b>    | <b>–</b>   | <b>5,198</b>   |
| <b>Non-current liabilities</b>                      |                  |                   |  |                |
| Trade and other payables                            | (8,510)          | –                 | –  | (8,510)        |
| Borrowings  | (4,015)          | –                 | –  | (4,015)        |
| <b>Net assets</b>                                   | <b>80,056</b>    | <b>–</b>          | <b>369</b>   | <b>80,425</b>  |
| <b>Shareholders' equity</b>                         |                  |                   |  |                |
| Ordinary shares                                     | 1,891            | –                 | –  | 1,891          |
| Share premium                                       | 188,668          | –                 | –  | 188,668        |
| Revaluation reserve                                 | 1,646            | (1,526)           | (120)  | –              |
| Share option reserve                                | 581              | –                 | 325  | 906            |
| Retained earnings                                   | (112,730)        | 1,526             | 164  | (111,040)      |
| <b>Total shareholders' equity</b>                   | <b>80,056</b>    | <b>–</b>          | <b>369</b>   | <b>80,425</b>  |

## 27.3 Restatement of the Group consolidated balance sheet as at 31 March 2007

|  | Previous<br>GAAP | Adjustments | Reclassifications | Deferred<br>taxation<br>effect of<br>transition<br>to IFRS | Business<br>combinations<br>IFRS 3 | IFRS          |
|--|------------------|-------------|-------------------|--|------------------------------------|---------------|
|  | £'000            | £'000       | £'000             | £'000  | £'000                              | £'000         |
| <b>Assets</b>  |                  |             |                   |  |                                    |               |
| <b>Non-current assets</b>                              |                  |             |                   |  |                                    |               |
| Goodwill   | 38,027           | –           | –                 | 234  | 1,531                              | 39,792        |
| Intangible assets                                      | –                | –           | –                 | –  | 773                                | 773           |
| Property, plant & equipment                            | 9,611            | –           | –                 | –  | –                                  | 9,611         |
| Investment in subsidiary<br>and associate undertakings | 3,301            | –           | –                 | 269  | 53                                 | 3,623         |
| Deferred tax assets                                    | –                | –           | 1,968             | (297)  | –                                  | 1,671         |
|  | <b>50,939</b>    | <b>–</b>    | <b>1,968</b>      | <b>206</b>   | <b>2,357</b>                       | <b>55,470</b> |
| <b>Current assets</b>                                  |                  |             |                   |  |                                    |               |
| Inventories  | 92               | –           | –                 | –  | –                                  | 92            |
| Trade and other receivables                            | 16,863           | –           | (1,968)           | –  | –                                  | 14,895        |
| Cash and cash equivalents                              | 12,782           | –           | –                 | –  | –                                  | 12,782        |
|  | <b>29,737</b>    | <b>–</b>    | <b>(1,968)</b>    | <b>–</b>   | <b>–</b>                           | <b>27,769</b> |
| <b>Liabilities</b>                                     |                  |             |                   |  |                                    |               |
| <b>Current liabilities</b>                             |                  |             |                   |  |                                    |               |
| Trade and other payables                               | (11,861)         | 363         | –                 | –  | –                                  | (11,498)      |
| Borrowings   | (1,872)          | –           | –                 | –  | –                                  | (1,872)       |
| Current tax liabilities                                | (2,766)          | –           | –                 | –  | –                                  | (2,766)       |
| <b>Net current assets</b>                              | <b>13,238</b>    | <b>363</b>  | <b>(1,968)</b>    | <b>–</b>   | <b>–</b>                           | <b>11,633</b> |
| <b>Non-current liabilities</b>                         |                  |             |                   |  |                                    |               |
| Borrowings   | (594)            | –           | –                 | –  | –                                  | (594)         |
| <b>Net assets</b>                                      | <b>63,583</b>    | <b>363</b>  | <b>–</b>          | <b>206</b>   | <b>2,357</b>                       | <b>66,509</b> |
| <b>Shareholders' equity</b>                            |                  |             |                   |  |                                    |               |
| Ordinary shares  | 1,899            | –           | –                 | –  | –                                  | 1,899         |
| Share premium  | 188,843          | –           | –                 | –  | –                                  | 188,843       |
| Revaluation reserve                                    | 1,595            | –           | (1,475)           | (120)  | –                                  | –             |
| Share option reserve                                   | 829              | –           | –                 | 240  | –                                  | 1,069         |
| Retained earnings                                      | (129,583)        | 363         | 1,475             | 86   | 2,357                              | (125,302)     |
| <b>Total shareholders' equity</b>                      | <b>63,583</b>    | <b>363</b>  | <b>–</b>          | <b>206</b>   | <b>2,357</b>                       | <b>66,509</b> |

# Notes to the financial statements continued

## 27.4 Restatement of the Company balance sheet as at 31 March 2007

|  | Previous<br>GAAP | Adjustments | Reclassifications | Deferred<br>taxation<br>effect of<br>transition<br>to IFRS | Business<br>combinations<br>IFRS 3 | IFRS          |
|--|------------------|-------------|-------------------|--|------------------------------------|---------------|
|  | £'000            | £'000       | £'000             | £'000  | £'000                              | £'000         |
| <b>Assets</b>  |                  |             |                   |  |                                    |               |
| <b>Non-current assets</b>                              |                  |             |                   |  |                                    |               |
| Goodwill   | 30,393           | –           | –                 | –  | 2,280                              | 32,673        |
| Intangible assets                                      | –                | –           | –                 | –  | –                                  | –             |
| Property, plant & equipment                            | 8,982            | –           | –                 | –  | –                                  | 8,982         |
| Investment in subsidiary<br>and associate undertakings | 14,188           | –           | –                 | –  | –                                  | 14,188        |
| Deferred tax assets                                    | –                | –           | 1,968             | 171  | –                                  | 2,139         |
| Trade and other receivables                            | 1,455            | –           | 4,029             | –  | –                                  | 5,484         |
|  | <b>55,018</b>    | <b>–</b>    | <b>5,997</b>      | <b>171</b>   | <b>2,280</b>                       | <b>63,466</b> |
| <b>Current assets</b>                                  |                  |             |                   |  |                                    |               |
| Inventories  | 41               | –           | –                 | –  | –                                  | 41            |
| Trade and other receivables                            | 17,411           | –           | (5,997)           | –  | –                                  | 11,414        |
| Cash and cash equivalents                              | 12,723           | –           | –                 | –  | –                                  | 12,723        |
|  | <b>30,175</b>    | <b>–</b>    | <b>(5,997)</b>    | <b>–</b>   | <b>–</b>                           | <b>24,178</b> |
| <b>Liabilities</b>                                     |                  |             |                   |  |                                    |               |
| <b>Current liabilities</b>                             |                  |             |                   |  |                                    |               |
| Trade and other payables                               | (8,587)          | 45          | 909               | –  | –                                  | (7,633)       |
| Borrowings   | (586)            | –           | –                 | –  | –                                  | (586)         |
| Current tax liabilities                                | (2,766)          | –           | –                 | –  | –                                  | (2,766)       |
| <b>Net current assets</b>                              | <b>18,236</b>    | <b>45</b>   | <b>(5,088)</b>    | <b>–</b>   | <b>–</b>                           | <b>13,193</b> |
| <b>Non-current liabilities</b>                         |                  |             |                   |  |                                    |               |
| Trade and other payables                               | (8,510)          | –           | (909)             | –  | –                                  | (9,419)       |
| Borrowings   | (434)            | –           | –                 | –  | –                                  | (434)         |
| <b>Net assets</b>                                      | <b>64,310</b>    | <b>45</b>   | <b>–</b>          | <b>171</b>   | <b>2,280</b>                       | <b>66,806</b> |
| <b>Shareholders' equity</b>                            |                  |             |                   |  |                                    |               |
| Ordinary shares  | 1,899            | –           | –                 | –  | –                                  | 1,899         |
| Share premium  | 188,843          | –           | –                 | –  | –                                  | 188,843       |
| Revaluation reserve                                    | 1,595            | –           | (1,475)           | (120)  | –                                  | –             |
| Share option reserve                                   | 829              | –           | –                 | 240  | –                                  | 1,069         |
| Retained earnings                                      | (128,856)        | 45          | 1,475             | 51   | 2,280                              | (125,005)     |
| <b>Total shareholders' equity</b>                      | <b>64,310</b>    | <b>45</b>   | <b>–</b>          | <b>171</b>   | <b>2,280</b>                       | <b>66,806</b> |



## 27.5 Restatement of the consolidated income statement for the year ended 31 March 2007

|  | Previous<br>GAAP | Adjustments  | Reclassifications | Deferred<br>taxation<br>effect of<br>transition<br>to IFRS | Business<br>combinations<br>IFRS 3 | IFRS            |
|--|------------------|--------------|-------------------|--|------------------------------------|-----------------|
|  | £'000            | £'000        | £'000             | £'000  | £'000                              | £'000           |
| Revenue                                    | 186,010          | –            | (153,110)         | –  | –                                  | 32,900          |
| Cost of sales                              | (148,632)        | –            | 136,835           | –  | –                                  | (11,797)        |
| Gross profit                               | 37,378           | –            | (16,275)          | –  | –                                  | 21,103          |
| Other operating income                     | –                | –            | 80                | –  | –                                  | 80              |
| Operating expenses                         | (36,914)         | –            | 13,240            | –  | 3,931                              | (19,743)        |
| Operating profit                           | 464              | –            | (2,955)           | –  | 3,931                              | 1,440           |
| Finance costs – net                        | (1,147)          | –            | (17)              | –  | –                                  | (1,164)         |
| Share of results of associate              | (781)            | –            | 17                | –  | 53                                 | (711)           |
| Loss on sale of business assets            | (5,752)          | –            | 5,752             | –  | –                                  | –               |
| Loss on sale of subsidiary<br>undertakings | (373)            | –            | 373               | –  | –                                  | –               |
| Taxation                                   | (8,346)          | –            | 8,346             | 34   | –                                  | 34              |
| Discontinued operations                    |                  |              |                   |  |                                    |                 |
| – Results of operations                    | –                | –            | 3,235             | (113)  | (1,627)                            | 1,495           |
| – Net loss on disposal                     | –                | (541)        | (14,751)          | –  | –                                  | (15,292)        |
| <b>Net loss</b>                            | <b>(15,935)</b>  | <b>(541)</b> | <b>–</b>          | <b>(79)</b>  | <b>2,357</b>                       | <b>(14,198)</b> |

# Notes to the financial statements continued

## 27.6 Restatement of the Company income statement for the year ended 31 March 2007

|  | Previous<br>GAAP | Adjustments | Reclassifications | Deferred<br>taxation<br>effect of<br>transition<br>to IFRS | Business<br>combinations<br>IFRS 3 | IFRS            |
|--|------------------|-------------|-------------------|--|------------------------------------|-----------------|
|  | £'000            | £'000       | £'000             | £'000  | £'000                              | £'000           |
| Revenue                                    | 182,233          | –           | (153,110)         | –  | –                                  | 29,123          |
| Cost of sales                              | (145,894)        | –           | 136,835           | –  | –                                  | (9,059)         |
| Gross profit                               | 36,339           | –           | (16,275)          | –  | –                                  | 20,064          |
| Other operating income                     | –                | –           | 80                | –  | –                                  | 80              |
| Operating expenses                         | (35,815)         | –           | 13,073            | –  | 4,009                              | (18,733)        |
| Operating profit                           | 524              | –           | (3,122)           | –  | 4,009                              | 1,411           |
| Finance costs – net                        | (1,210)          | –           | –                 | –  | –                                  | (1,210)         |
| Loss on sale of business assets            | (6,772)          | –           | 6,772             | –  | –                                  | –               |
| Loss on sale of subsidiary<br>undertakings | (373)            | –           | 373               | –  | –                                  | –               |
| Taxation                                   | (8,346)          | –           | 8,346             | –  | –                                  | –               |
| Discontinued operations                    |                  |             |                   |  |                                    |                 |
| – Results of operations                    | –                | –           | 3,235             | (113)  | (1,642)                            | 1,480           |
| – Net loss on disposal                     | –                | (42)        | (15,604)          | –  | –                                  | (15,646)        |
| <b>Net loss</b>                            | <b>(16,177)</b>  | <b>(42)</b> | <b>–</b>          | <b>(113)</b>   | <b>2,367</b>                       | <b>(13,965)</b> |

## 27.7 Restatement of the consolidated cash flow statement for the year ended 31 March 2007

|   | Previous<br>GAAP | Adjustments  | Reclassifications | Business<br>combinations<br>IFRS 3 | IFRS            |
|---|------------------|--------------|-------------------|------------------------------------|-----------------|
|   | £'000            | £'000        | £'000             | £'000                              | £'000           |
| <b>Operating profit/(loss)</b>                          | <b>464</b>       | <b>(541)</b> | <b>(6,125)</b>    | <b>2,304</b>                       | <b>(3,898)</b>  |
| Adjustments for:  |                  |              |                   |                                    |                 |
| Depreciation  | 4,805            | –            | –                 | –                                  | 4,805           |
| Profit on sale of property, plant & equipment           | (36)             | –            | –                 | –                                  | (36)            |
| Goodwill amortisation                                   | 3,994            | –            | –                 | (3,994)                            | –               |
| Impairment of goodwill                                  | –                | –            | 6,125             | 1,627                              | 7,752           |
| Amortisation of intangibles                             | –                | –            | –                 | 63                                 | 63              |
| Exchange movements                                      | 17               | –            | –                 | –                                  | 17              |
| Share option non cash charge                            | 187              | –            | –                 | –                                  | 187             |
| Changes in working capital                              |                  |              |                   |                                    |                 |
| Decrease in inventories                                 | 6,585            | –            | –                 | –                                  | 6,585           |
| Decrease in trade and other receivables                 | 60,253           | –            | –                 | –                                  | 60,253          |
| Decrease in trade and other payables                    | (63,832)         | 541          | –                 | –                                  | (63,291)        |
| <b>Cash generated from operations</b>                   | <b>12,437</b>    | <b>–</b>     | <b>–</b>          | <b>–</b>                           | <b>12,437</b>   |
| Interest received                                       | 204              | –            | –                 | –                                  | 204             |
| Interest paid   | (1,074)          | –            | –                 | –                                  | (1,074)         |
| Interest element of finance lease payments              | (194)            | –            | –                 | –                                  | (194)           |
| Tax paid  | (4,990)          | –            | –                 | –                                  | (4,990)         |
| <b>Net cash from operating activities</b>               | <b>6,383</b>     | <b>–</b>     | <b>–</b>          | <b>–</b>                           | <b>6,383</b>    |
| <b>Cash flows from investing activities</b>             |                  |              |                   |                                    |                 |
| Proceeds from sale of business assets                   | 39,998           | –            | –                 | –                                  | 39,998          |
| Proceeds from sale of property, plant & equipment       | 72               | –            | –                 | –                                  | 72              |
| Purchase of property, plant & equipment                 | (3,145)          | –            | –                 | –                                  | (3,145)         |
| Acquisition of subsidiaries (net of cash acquired)      | (8,143)          | –            | –                 | –                                  | (8,143)         |
| Proceeds from sale of subsidiary undertakings           | 4,630            | –            | –                 | –                                  | 4,630           |
| Investment in associate                                 | (4,000)          | –            | –                 | –                                  | (4,000)         |
| <b>Net cash used in investing activities</b>            | <b>29,412</b>    | <b>–</b>     | <b>–</b>          | <b>–</b>                           | <b>29,412</b>   |
| <b>Cash flows from financing</b>                        |                  |              |                   |                                    |                 |
| Net proceeds from issue of ordinary share capital       | 183              | –            | –                 | –                                  | 183             |
| Decrease in borrowings                                  | (34,455)         | –            | –                 | –                                  | (34,455)        |
| Capital element of finance lease payments               | (1,457)          | –            | –                 | –                                  | (1,457)         |
| <b>Net cash outflow from financing</b>                  | <b>(35,729)</b>  | <b>–</b>     | <b>–</b>          | <b>–</b>                           | <b>(35,729)</b> |
| <b>Net increase in cash and equivalents in the year</b> | <b>66</b>        | <b>–</b>     | <b>–</b>          | <b>–</b>                           | <b>66</b>       |
| Cash and equivalents at beginning of year               | 12,719           | –            | –                 | –                                  | 12,719          |
| Exchange losses on cash and equivalents                 | (3)              | –            | –                 | –                                  | (3)             |
| <b>Cash and equivalents at end of year</b>              | <b>12,782</b>    | <b>–</b>     | <b>–</b>          | <b>–</b>                           | <b>12,782</b>   |

# Notes to the financial statements continued

## 27.8 Restatement of the Company cash flow statement for the year ended 31 March 2007

|   | Previous<br>GAAP | Adjustments | Reclassifications | Business<br>combinations<br>IFRS 3 | IFRS            |
|---|------------------|-------------|-------------------|------------------------------------|-----------------|
|   | £'000            | £'000       | £'000             | £'000                              | £'000           |
| <b>Operating profit/(loss)</b>                          | <b>524</b>       | <b>(42)</b> | <b>(7,145)</b>    | <b>2,382</b>                       | <b>(4,281)</b>  |
| Adjustments for:  |                  |             |                   |                                    |                 |
| Depreciation  | 4,643            | –           | –                 | –                                  | 4,643           |
| Profit on sale of property, plant & equipment           | (36)             | –           | –                 | –                                  | (36)            |
| Goodwill amortisation                                   | 4,009            | –           | –                 | (4,009)                            | –               |
| Impairment of goodwill                                  | –                | –           | 7,145             | 1,627                              | 8,772           |
| Exchange movements                                      | 17               | –           | –                 | –                                  | 17              |
| Share option non cash charge                            | 187              | –           | –                 | –                                  | 187             |
| Changes in working capital                              |                  |             |                   |                                    |                 |
| Decrease in inventories                                 | 6,581            | –           | –                 | –                                  | 6,581           |
| Decrease in trade and other receivables                 | 55,809           | –           | –                 | –                                  | 55,809          |
| Decrease in trade and other payables                    | (64,376)         | 42          | –                 | –                                  | (64,334)        |
| <b>Cash generated from operations</b>                   | <b>7,358</b>     | <b>–</b>    | <b>–</b>          | <b>–</b>                           | <b>7,358</b>    |
| Interest received                                       | 204              | –           | –                 | –                                  | 204             |
| Interest paid   | (1,023)          | –           | –                 | –                                  | (1,023)         |
| Interest element of finance lease payments              | (191)            | –           | –                 | –                                  | (191)           |
| Tax paid  | (4,990)          | –           | –                 | –                                  | (4,990)         |
| <b>Net cash from operating activities</b>               | <b>1,358</b>     | <b>–</b>    | <b>–</b>          | <b>–</b>                           | <b>1,358</b>    |
| <b>Cash flows from investing activities</b>             |                  |             |                   |                                    |                 |
| Proceeds from sale of business assets                   | 39,998           | –           | –                 | –                                  | 39,998          |
| Proceeds from sale of property, plant & equipment       | 72               | –           | –                 | –                                  | 72              |
| Purchase of property, plant & equipment                 | (3,136)          | –           | –                 | –                                  | (3,136)         |
| Acquisition of subsidiaries (net of cash acquired)      | (6,825)          | –           | –                 | –                                  | (6,825)         |
| Proceeds from sale of subsidiary undertakings           | 4,630            | –           | –                 | –                                  | 4,630           |
| Investment in associate                                 | (4,000)          | –           | –                 | –                                  | (4,000)         |
| <b>Net cash used in investing activities</b>            | <b>30,739</b>    | <b>–</b>    | <b>–</b>          | <b>–</b>                           | <b>30,739</b>   |
| <b>Cash flows from financing</b>                        |                  |             |                   |                                    |                 |
| Net proceeds from issue of ordinary share capital       | 183              | –           | –                 | –                                  | 183             |
| Decrease in borrowings                                  | (30,790)         | –           | –                 | –                                  | (30,790)        |
| Capital element of finance lease payments               | (1,425)          | –           | –                 | –                                  | (1,425)         |
| <b>Net cash outflow from financing</b>                  | <b>(32,032)</b>  | <b>–</b>    | <b>–</b>          | <b>–</b>                           | <b>(32,032)</b> |
| <b>Net increase in cash and equivalents in the year</b> | <b>65</b>        | <b>–</b>    | <b>–</b>          | <b>–</b>                           | <b>65</b>       |
| Cash and equivalents at beginning of year               | 12,661           | –           | –                 | –                                  | 12,661          |
| Exchange losses on cash and equivalents                 | (3)              | –           | –                 | –                                  | (3)             |
| <b>Cash and equivalents at end of year</b>              | <b>12,723</b>    | <b>–</b>    | <b>–</b>          | <b>–</b>                           | <b>12,723</b>   |

# Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting (the “**Meeting**”) of InTechnology plc (the “**Company**”) will be held at Central House, Beckwith Knowle, Otley Road, Harrogate, HG3 1UG on Wednesday 16 July 2008 at 3pm to transact the following business:

## Ordinary business

- 1 To receive and adopt the report of the directors of the Company (“**Directors**”), the report of the independent auditors of the Company and the financial statements of the Company for the year ended 31 March 2008.
- 2 To re-appoint Richard James as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association of the Company (the “**Articles**”) and who, being eligible, offers himself for re-appointment as a Director.
- 3 To re-appoint Andrew Kaberry as a Director, who retires by rotation in accordance with Article 92 and who, being eligible, offers himself for re-appointment as a Director.
- 4 To re-appoint Peter Wilkinson as a Director, who retires by rotation in accordance with Article 92 and who, being eligible, offers himself for re-appointment as a Director.
- 5 To re-appoint PricewaterhouseCoopers LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company and that their remuneration be fixed by the Directors.

## Special business

To consider and, if thought fit, pass the following resolutions, with resolutions 6 and 7 being proposed as an ordinary resolution and resolution 8 being proposed as a special resolution:

6 That:

- i) the rules of the InTechnology plc Equity Participation Plan (the “**EPP**”), the main features of which are summarised in Appendix 1 to the Notice of Annual General Meeting, in the form (or substantially in the form) of the draft produced to this meeting and initialled by the Chairman thereof for the purposes of identification marked ‘A’, be and are hereby approved;
- ii) the entering into of a ‘credit transaction’ (as defined in s202 Companies Act 2006) with the directors of the Company, being the subscription for shares on nil-paid terms pursuant to the EPP, as detailed in the memorandum to members at Appendix 2 to the Notice of Annual General Meeting is hereby approved; and
- iii) the Board of InTechnology plc be and it is hereby authorised to do all acts and things necessary or expedient to carry the same into effect.

7 That in substitution for all subsisting authorities to the extent unused the Directors be and are hereby generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (“**CA85**”) to exercise all the powers of the

Company to allot relevant securities (within the meaning of section 80 of the CA85) up to an aggregate nominal amount of £439,428, provided that such authority shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution 7, save that the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot relevant securities in pursuance of any such offer or agreement. References in this resolution to the CA85, shall, where the context requires and where appropriate include references to the Companies Act 2006 (“**CA06**”) and any corresponding or similar sections of the CA06, it being the intention that, to the extent permitted by law, the authority contained in this resolution shall continue in full force and effect notwithstanding any repeal of the CA85 or any relevant part or section thereof.

8 That, subject to the passing of Resolution 7, in substitution for all subsisting authorities to the extent unused the Directors be and they are hereby empowered, pursuant to section 95 of the CA85, to allot equity securities (within the meaning of section 94 of the CA85) for cash pursuant to the authority given by Resolution 7 and/or to allot equity securities where such allotment constitutes an allotment of securities by virtue of section 94(3A) of the CA85, as if section 89(1) of the CA85

# Notice of Annual General Meeting continued

did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities (excluding any shareholder holding shares as treasury shares):

- a) in connection with an offer of such securities by way of rights issued or other issues in favour of holders of Ordinary Shares in the Company where the equity securities respectively attributed to the interests of all such holders are proportionate (as nearly as may be practical) to their respective holdings of Ordinary 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, or the requirements of any regulatory body or any stock exchange in, any territory or otherwise howsoever); and
- b) otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal amount of £65,914;

and shall expire at the conclusion of the next Annual General Meeting of the Company after the passing of this Resolution 8, save that the Company may before such expiry make an offer

or agreement which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the Directors may allot equity securities in pursuance of such offer or agreement. References in this Resolution 8 to the CA85, shall, where the context requires and where appropriate, include references to the CA06 and any corresponding or similar sections of the CA06, it being the intention that, to the extent permitted by law, the authority contained in this resolution shall continue in full force and effect notwithstanding any repeal of the CA85 or any relevant part or section thereof.

Dated 17 June 2008

By order of the Board

**Richard James**

Director and Company Secretary

For and on behalf of InTechnology plc

Central House

Beckwith Knowle

Otley Road

Harrogate

HG3 1UG

## Notes to the Notice of Annual General Meeting

### Appointment of proxies

- 1 As a member of the Company, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
- 2 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form.
- 3 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact Capita Registrars at Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
- 4 If you do not give your proxy an indication of how to vote on any resolution, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the Meeting.

### Appointment of proxy using hard copy proxy form

- 5 The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.  
To appoint a proxy using the proxy form, the form must be:
  - completed and signed;
  - sent or delivered to Capita Registrars at Proxy Department,

The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and

- received by Capita Registrars by no later than 3pm on 14 July 2008.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

### Appointment of proxy by joint members

- 6 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

### Changing proxy instructions

- 7 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Capita Registrars at Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

If you submit more than one valid proxy appointment, the appointment

received last before the latest time for the receipt of proxies will take precedence.

### Termination of proxy appointments

- 8 In order to revoke a proxy instruction you will need to inform Capita Registrars by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Capita Registrars at Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, the revocation notice must be received by Capita Registrars by no later than 3pm on 14 July 2008.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.

### Communication

- 9 Except as provided above, members who wish to communicate with the Company in relation to the Meeting should write to the Company Secretary, InTechnology plc, Central House, Beckwith Knowle, Otley Road, Harrogate HG3 1UG.

No other methods of communication will be accepted.

# Appendix 1

## Summary of the principle features of the InTechnology plc Equity Participation Plan (the “EPP”)

### Introduction

- 1 A summary of the main features of the EPP is set out below, together with details of the way in which the EPP is intended to operate. The EPP will be operated by the Board.
- 2 The EPP allows selected participants to subscribe for shares on ‘nil-paid’ terms. Participants will be required to pay the full, unrestricted market value of the shares at the date of acquisition when a call is made for those amounts by the Company.
- 3 The participants will have full legal and beneficial ownership of the shares from the subscription date.
- 4 The EPP has been established as an ‘employee share scheme’ for the purposes of the Companies Act 1985.

### Employee eligibility

- 5 The Board will offer Directors and senior employees of the Company the opportunity to acquire ordinary shares in InTechnology plc under the terms of the EPP on a discretionary basis.

### Participation limits

- 6 There are no individual participation limits under the EPP apart from the overall limits set out in paragraphs 7 and 8 below.

### Shareholder dilution

- 7 The EPP rules contain limits on the number of new shares to be issued under the EPP. These limits apply to both awards under the EPP and all other employee share schemes operated by the Company. Awards which have lapsed or been renounced will be disregarded.

- 8 The rules of the EPP provide that no more than 15% of the issued ordinary share capital of the Company, from time to time, should be issued under all incentive schemes operated by the Company.

### Making of awards

- 9 An award will be personal to the participant and not transferable.
- 10 No awards can be made under the EPP more than 10 years after adoption date.

### Performance targets

- 11 The Board may, if they decide, apply performance conditions to the grant of awards under the EPP. To the extent that any performance conditions are not satisfied, participants will be required to forfeit their EPP shares.

### Acquisition price

- 12 The acquisition price shall be determined by the Board and will be payable when the Company calls for the acquisition price from the participants. To the extent that HM Revenue & Customs determine that the unrestricted market value of the shares is greater than the acquisition price determined by the Board, the acquisition price shall be amended such that the participant is liable to pay unrestricted market value for the shares when the Company makes a call.

### Interim Period

- 13 The Interim Period runs from the date of subscription for the shares until all of the following conditions have been satisfied:
  - (i) the acquisition price has been paid in full;
  - (ii) the third anniversary of the subscription date has passed, or the participant has ceased employment with the Company; and

(iii) any performance conditions attached to the award of shares has been satisfied.

- 14 During the Interim Period:

- (i) the participant appoints the Company as its attorney in relation to the shares;
- (ii) the participant is not entitled to any dividends, nor are they entitled to vote on their shares; and
- (iii) the participant agrees not to create any encumbrance over the shares or to transfer them.

### Payment of the call amounts

- 15 The Company will call for the Subscription Amounts no later than the fifth anniversary of the subscription date, but may call sooner in certain circumstances (such as cessation of employment in certain circumstances, or on a sale of the Company).
- 16 The participant may request that the Company calls for the call amount at any time after the third anniversary of the subscription date, or on becoming a leaver if earlier.
- 17 The participant may not request that the Company calls for the call amounts before the third anniversary.

### Leavers

- 18 If participants cease employment as a good leaver (which includes but is not limited to cessation of employment by reason of injury, disability, redundancy, retirement or death) then they will be able to request that the Company makes a call for the call amounts in the six months following cessation of employment. If they do not make such a request then the Company would call for the call amounts on the normal due dates.



19 If a good leaver does make a request for the Company to make a call within the required period and the Company makes a call for the call amounts then they may sell their shares for the higher of acquisition price and market value on cessation.

20 If a participant in the EPP ceases employment for a reason where they are not a 'good leaver' they will be required to pay up any call amounts immediately and their shares must be sold back as directed by the Company for the lower of cost or market value.

#### **Tax treatment of the EPP**

21 As participants are being required to pay unrestricted market value for their shares (and will complete section 431 'restricted security' elections as a term of the acquisition of their shares) any future growth in value will be subject to capital gains tax. No charge to income tax will arise in relation to the acquisition of shares.

22 The acquisition of shares on 'nil paid' terms may give rise to a benefit in kind for any participants who are not involved in the 'actual management and conduct' of the Company. This benefit will equate to 6.25% of the call amount and is subject to income tax at the participant's marginal rate. In addition the Company will pay Class 1A national insurance contributions ("NIC") on this benefit.

23 For participants who satisfy HMRC requirements and are involved in the actual management and conduct of the company no benefit in kind will arise for so long as the Company is close for tax purposes.

24 The Company has agreed to pay participants a cash bonus such that any 'carrying cost' of the EPP is neutral for all participants.

25 Good leavers are allowed to sell their shares within 6 months of ceasing employment for the higher of the acquisition price and market value to put them in a similar position to that which they would be in if they held a share option. To the extent that the price they receive is in excess of the market value of the shares at that time a charge to PAYE and NIC (both employer's and employees') will arise.

#### **Pensionability**

26 Awards under the EPP will not be pensionable.

#### **Source of shares**

27 The EPP provides for the use of newly issued shares.

#### **Amendments to the EPP**

28 The EPP is administered by the Board and may be amended by the Board.

29 However, the provisions in the EPP relating to the limits on the number of new shares which may be issued pursuant to the EPP and any other Company share scheme will not be altered for the benefit of existing or future participants without the prior approval of the shareholders in general meeting.

30 Additionally, no amendment can be made which would adversely affect the rights of participants without their consent.

# Appendix 2

## Memorandum to shareholders – Approval of credit transaction

### **Nature of the transaction**

It is proposed that a number of directors who are participants under the InTechnology plc Equity Participation Plan (the “EPP”) are to be offered the opportunity to subscribe for ordinary shares on ‘nil-paid’ terms with the call amount equal to the unrestricted market value (“UMV”) of the shares as agreed with HM Revenue & Customs.

The acquisition of nil-paid shares is a ‘credit transaction’ as defined in s202 Companies Act 2006 which in accordance with s201 Companies Act 2006 requires the consent of the members.

The call amount will be repaid upon call from the Company at any time, although it is anticipated that the Company will only make a call for the call amount on the earlier of:

- (i) immediately before an exit (being a share sale, an asset sale or a listing);
- (ii) if there is no exit by the fifth anniversary of the date of grant; or
- (iii) the participant ceasing to be employed by the Company.

### **Value of credit transaction and purpose for which it is required**

The amount of the credit transaction with the Directors of InTechnology is anticipated to be £618,523 (being 3,638,368 shares at an acquisition price of £0.17 per share (being the market value of the shares as agreed with HMRC on 22 April 2008 for the purposes of granting options under the Company’s Approved Share Option Plan)).

However, to the extent that HMRC contend that the UMV of the shares is greater than £0.17 per share the participants will be required to pay that greater amount when the Company makes a call for the shares.

The purpose of the credit transaction is to offer directors the opportunity to subscribe for shares under an employee share scheme (the EPP). The EPP is being introduced in order to incentivise and retain key employees and directors.

### **Extent of the company’s liability under any transaction connected with the credit transaction**

The call amount is payable by the participants when the Company makes a call which will be no later than five years from the subscription date. The call may be made sooner in certain circumstances, such as in the event of a change of control of the Company.

# 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 at the annual general meeting of the Company to be held at Central House, Beckwith Knowle, Otley Road, Harrogate, HG3 1UG (the "AGM"). **Please read the Notice of AGM and the notes to this proxy form.**

I/We

of:

**being Shareholder(s) entitled to attend, speak and vote at meetings of Shareholders, hereby appoint the Chairman of the AGM or (see note 3):**

**as my/our proxy to attend, speak and vote on my/our behalf at the AGM of the Company to be held on Wednesday 16 July 2008 at 3pm and at any adjournment of the meeting.**

I/We direct my/our proxy to vote on the following resolutions as I/we have indicated by marking the appropriate box with an 'X'. If no indication is given, my/our proxy will vote or abstain from voting at his or her discretion and I/we authorise my/our proxy to vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is properly put before the meeting.

| RESOLUTIONS   | FOR                      | AGAINST                  | VOTE<br>WITHELD          |
|---|--------------------------|--------------------------|--------------------------|
| <b>ORDINARY BUSINESS</b>  |                          |                          |                          |
| 1 Receipt and adoption of Directors' report and financial statements.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 Re-appointment of Richard James.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 Re-appointment of Andrew Kaberry.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 Re-appointment of Peter Wilkinson.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 Re-appointment of PricewaterhouseCoopers LLP as auditors of the Company and Directors' authority to fix their remuneration.   | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| <b>SPECIAL BUSINESS</b>   |                          |                          |                          |
| 6 Ordinary resolution to approve the rules of the InTechnology plc Equity Participation Plan, to approve credit transactions and grant authority to the Board in respect thereof. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 Ordinary resolution to authorise the Directors to allot relevant securities.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 Special resolution to disapply statutory pre-emption provisions.  | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

Dated

Signed

**Notes to the proxy form:**

- As a member of the Company you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at a general meeting of the Company. You can only appoint a proxy using the procedures set out in these notes and the notes to the Notice of AGM.
- Submission of a proxy form does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.
- A proxy does not need to be a member of the Company but must attend the meeting to represent you. To appoint as your proxy a person other than the Chairman of the meeting, insert their full name in the box. If you sign and return this proxy form with no name inserted in the box, the Chairman of the meeting will be deemed to be your proxy. Where you appoint as your proxy someone other than the Chairman, you are responsible for ensuring that they attend the meeting and are aware of your voting intentions. If you wish your proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman and give them the relevant instructions directly.
- You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact Capita Registrars at Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU.
- To direct your proxy how to vote on the resolutions mark the appropriate box with an 'X'. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.
- To appoint a proxy using this form, the form must be:
  - completed and signed;
  - sent or delivered to Capita Registrars at Proxy Department, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU; and
  - received by Capita Registrars by no later than 14 July 2008 at 3pm.
- In the case of a member which is a company, this form of proxy must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.
- Any power of attorney or any other authority under which this proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
- In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
- For details of how to change your proxy instructions or revoke your proxy appointment see the notes to the Notice of AGM.

THIRD FOLD AND TUCK IN

BUSINESS REPLY SERVICE  
License No. MB122



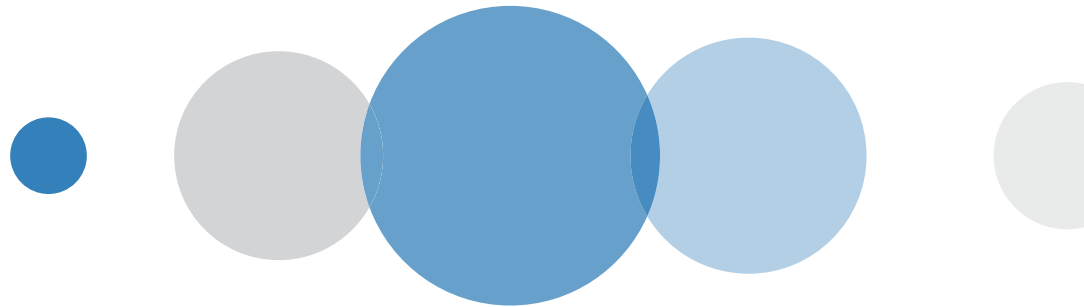
FIRST FOLD

**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 Officer      |
| Richard James               | Director & Company Secretary |
| Andrew Kaberry              | Finance Director             |
| Bryn Sage                   | Chief Operating Officer      |

## Registered office:

InTechnology plc  
Central House  
Beckwith Knowle  
Harrogate  
HG3 1UG  
Tel +44 (0)1423 850 000  
Fax +44 (0)1423 850 001

## Registrar and transfer office:

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

## Matched bargain exchange:

[www.sharemark.com](http://www.sharemark.com)

## Principal bankers:

Lloyds TSB Bank Plc  
1<sup>st</sup> Floor  
31-32 Park Row  
Leeds  
LS1 5JD

## Independent auditors:

PricewaterhouseCoopers LLP  
Benson House  
33 Wellington Street  
Leeds  
LS1 4JP

## Solicitors:

Hammonds LLP  
2 Park Lane  
Leeds  
LS3 1ES

## Company registration number:

3916586

## Internet address:

[www.intechnology.com](http://www.intechnology.com)

# Corporate information continued



## **Headquarters & Northern Data Centre**

InTechnology plc  
Central House  
Beckwith Knowle  
Harrogate  
HG3 1UG  
Tel +44 (0) 1423 850 000  
Fax +44 (0) 1423 850 001

## **Southern Data Centres**

260-266 Goswell Road  
Islington  
London  
EC1V 7EB

East India Dock House  
240 East India Dock Road  
London  
E14 9YY

13 Selsdon Way  
London  
E14 9GL

## **London Office**

17 St Helen's Place  
London  
EC3A 6DG

## **Reading Office**

Commensus House  
Worton Drive  
Reading  
Berkshire  
RG2 0TG  
Tel +44 (0)870 777 7778  
Fax +44 (0)870 777 7779



