

retec  digital

RETEC DIGITAL PLC

*(formerly Elite Strategies PLC)*

ANNUAL REPORT AND  
FINANCIAL STATEMENTS

for the year ended 30 June 2006



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## Company information

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<b>Directors</b>	Sir Brian Ivory, <i>Chairman</i> J Cole B J Ellis R Hayim C R H McKay
<b>Secretary</b>	V J Hawrych
<b>Registered office</b>	The Cellars Works Road Letchworth Hertfordshire SG6 1FR
<b>Registered number</b>	04015454
<b>Auditors</b>	haysmacintyre Fairfax House 15 Fulwood Place London WC1V 6AY
<b>Solicitors</b>	Edwin Coe 2 Stone Buildings Lincoln's Inn London WC2A 3TH
<b>Nominated adviser and broker</b>	Charles Stanley Securities 25 Luke Street London EC2A 4AR
<b>Registrars</b>	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA
<b>Bankers</b>	Bank of Scotland plc 14 Friar Lane Leicester LE1 5RA

# Chairman's statement

I am pleased to be able to make my first report to you as Chairman of the Company.

## Introduction

Last year was a period of significant change for the business. Over the year, the underlying business of Retec Interface Limited ("Retec Interface"), in which Elite Strategies PLC held a strategic investment, grew substantially and the Board decided to acquire the business by means of a takeover. I am delighted to report that following the year-end, we completed the transaction, and on 19 September 2006 have changed the name of the Company to Retec Digital PLC, with the principal operating business called Retec Interface.

Along with these changes have come a number of personnel changes in the composition of the Board. Harvey Lipsith took over as non-executive Chairman at the start of 2006 to oversee the proposed acquisition and Stuart Guyton became Finance Director. Now that we have successfully acquired Retec Interface, Charles McKay has joined as Finance Director, replacing Stuart Guyton, and I replaced Harvey Lipsith as Chairman with effect from 19 October 2006.

On your behalf I would like to thank both Harvey and Stuart for their hard work and dedication to this business during the acquisition.

## Review of activities **Results for the year ended 30 June 2006**

Turnover for the year ended 30 June 2006 from continuing operations amounted to £43,758 (2005: £nil). Administrative costs amounted to £173,224 (2005: £148,410), the Company received interest of £56,837 (2005: £38,859). The loss on ordinary activities before tax amounted to £72,829 (2005: £109,945), a loss of 0.15p per ordinary share (2005: loss 0.45p). As at 30 June 2006 shareholders' funds increased to £2,260,620 (2005: £1,602,203) and cash balances amounted to £104,558 (2005: £167,575). The Company had no debts as at 30 June 2006.

The Company is currently not in a position to pay dividends at this time although it remains the aspiration of the Directors to make dividend payments in future periods in the light of future results.

## Post balance sheet events

On 14 September 2006, the enlarged issued share capital of the Company was readmitted to trading on AIM following the acquisition of Retec Interface. As part of this transaction the Company raised £1,584,250 (before expenses) through an Offer for Subscription by the issue of 42,246,666 new Ordinary shares, and has issued a further 8,622,664 options over Ordinary shares at an exercise price of 3.75p per share.

Following the issue of equity pursuant to the acquisition of Retec Interface and the Offer for Subscription, the enlarged share capital of the Company is now 125,155,641 Ordinary shares of 0.5p.

The money raised will provide the Company with additional working capital resources principally to assist the further development of Retec Interface.

The Board would like to thank the Company's shareholders and its advisers for their support and assistance in making this acquisition and raising further funds for the Company.



# Chairman's statement continued

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**Operational review** Retec Digital PLC has the long term objective of becoming a leading global provider of digital communications solutions to the retail world. Retec Interface Limited ("Retec Interface") already has a leading position within the UK retail market and we intend to capitalise on this as appropriate opportunities arise to enhance shareholder value.

Retec Interface provides retailers with an in-store digital marketing package designed to increase core sales, provide additional revenue over and above this, improve cost control and enhance the customer experience.

Retec Interface's solutions comprise three basic components: plasma screens for general in-store advertising; shelf-edge interactive systems activated by touch screen, keyboard or bar-code; and shelf-edge broadcast systems sited next to a specific product range, carrying advertising and promotional content on these products. When combined these components join together to create a communication channel between the retailer and its customers.

Retec Interface has made some excellent progress in the last 12 months, and especially following the year end, with significant contract wins from some of the UK's leading retailers, including Sainsbury's, Tesco, Woolworths and Argos. IBM continues to be an important business partner and the affiliation with IBM has been instrumental in winning contracts with Woolworths and Argos.

Retec Interface is providing its Entertainment Xtra product to both Sainsbury's and Tesco. This is a solution deployed in the Home Entertainment departments of these retailers, providing customers with the opportunity to preview music, films and games material ahead of the purchase decision.

The business is contracted to deploy its Entertainment Xtra solution in a minimum of 100 Sainsbury's stores by the end of October 2006 and we are on track to successfully complete this roll-out. The revenue stream from this contract is dependent on advertising revenues from the large screens deployed in store and this is expected to grow quickly during the next 12 months.

Retec Interface's contract with Tesco is based on a service model whereby Tesco pays for the product itself including its maintenance and upkeep, but any advertising or additional trade marketing monies flow directly to the retailer.

Woolworths and Argos are more bespoke in nature and provide different functionality to the end user. Woolworths is an extended range kiosk that allows customers to perform a number of functions, including browsing the product range, as well as ordering and paying for the goods at the kiosk. Argos is similar in that it combines the browsing, ordering and payment function in one kiosk, reducing the need to queue whilst in an Argos store. Nearly 400 units have already been ordered by these two customers which will be installed by the start of December 2006, in time for the busy trading period.

In addition, we are constantly looking at ways to enhance our revenue stream and are exploring a number of different business sectors where our products may be utilised. The business continues to work with other blue chip retail clients and is engaged in a number of trials and pilots that we hope will lead to roll-outs with new customers as well as extensions with those already working with Retec Interface.

## Chairman's statement continued

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### Outlook

We enter 2006/07 with a very solid platform on which to build, both organically and by selective acquisition. The takeover of Retec Interface has transformed the business and we believe our relationship with IBM, as well as our unique digital communications solutions can deliver significant value for our shareholders as retailers discover the merits of our products and services.

We look forward to reporting further progress in the development of your Company during the current year and the Board remains confident of the future prospects of the Company.

**Sir Brian Ivory**

*Chairman*

19 October 2006



# Directors' report

The Directors present their report together with the audited financial statements for the year ended 30 June 2006.

**Principal activity** The principal activity of the Company in the year was that of a holding company.

**Review of business** The results for the year and financial position of the Company are shown in the annexed financial statements. During the year the Company raised additional equity finance and increased its convertible loan note to Retec Interface Limited.

**Dividends** No dividends will be distributed for the year ended 30 June 2006.

**Directors' and their interests** The Directors who held office during the year and to date were as follows:

J Cole  
 B J Ellis  
 S F Guyton (appointed 9 December 2005, resigned 11 September 2006)  
 J L Hand (resigned 31 December 2005)  
 R Hayim (appointed 13 October 2005)  
 Sir Brian Ivory (appointed 11 September 2006)  
 H B Lipsith (appointed 15 December 2005, resigned 19 October 2006)  
 C R H McKay (appointed 11 September 2006)  
 V W Nicholls (resigned 9 December 2005)

The Directors in office at 30 June 2006 had the following interests in the share capital of the Company:

	Ordinary 0.5p shares		B Deferred 0.005p shares	
	2006	2005	2006	2005
J Cole	442,922	442,922	398,630,430	398,630,430
B J Ellis	250,000	250,000	225,000,000	225,000,000
S F Guyton	—	—	—	—
R Hayim	—	—	—	—
H B Lipsith	—	—	—	—

None of the Directors in office at 30 June 2006 or 30 June 2005 had an interest in the Deferred 1p shares of the Company.

One third of Directors must offer themselves for re-election at the forthcoming Annual General Meeting, together with those Directors who have joined the Board since the last Annual General Meeting.

## Directors' report continued

**Share options** The options over or awards in respect of Ordinary Shares granted to Directors in office at 30 June 2006 under the Share Option Scheme, and remaining unexercised at the year end, are as follows:

Director	Scheme	At 30/06/05	Granted	At 30/06/06	Exercise price (pence)	Exercise date
J Cole	Unapproved General	—	1,983,350	1,983,350	2p	13/10/05 - 13/10/10
B J Ellis	Unapproved General	—	625,000	625,000	2p	13/10/05 - 13/10/10

R Hayim, through his participation in CSS Capital Managers LLP as a partner, holds the benefit of warrants to subscribe for 125,000 Ordinary shares at 2p per share exercisable on or prior to 30 September 2010.

**Substantial shareholders** As at 30 June 2006 the Company had been notified of the following beneficial interests in 3 per cent. or more of its issued share capital pursuant to Part VI of the Companies Act 1985:

	Percentage of issued share capital
Forest Nominees Limited	19.1
Meadowside Leasing Limited	13.4
Integrated Financial Arrangements Plc	3.3

**Charitable and political donations** The Company made no political or charitable donations during the year (2005: £nil).

**Creditor payment policy** The Company's policy is to abide by the payment terms agreed with the suppliers. On average, creditors are settled within 60 days following receipt of invoice.

**Auditors** The auditors, haysmacintyre, will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

On behalf of the Board

**V J Hawrych**  
Secretary

19 October 2006



# Corporate governance

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Details of the Company's corporate governance arrangements are set out below. The Board of Directors acknowledges the importance of the Principles set out in The Combined Code issued by the Committee on Corporate Governance. Although the Combined Code is not compulsory for AIM listed companies, the Board has applied the principles as far as practicable and appropriate for a relatively small public company.

We give below a statement as to how the Company applies the principles of Section I of the Revised Code, together with a statement regarding its compliance with specific provisions. The Board consists of a Chairman, two executive Directors, and two non-executive Directors. The non-executive Directors are considered independent by the Board as required by the Combined Code given the nature of their shareholdings. The Company has been in compliance throughout the year with the provisions set out in the Combined Code for Corporate Governance with the following exceptions:

- The Company does not have a Nominations Committee and this is contrary to provisions A.4.1 – A.4.3 but is being reviewed;
- There is no formal training programme for new Directors on joining the Board. This is contrary to provision A.5.1;
- The Board has not undertaken a formal and rigorous annual evaluation of its own performance and the individual Directors. This is contrary to provision A.6.1 but is being reviewed;
- The non-executive Directors of the Company have not been appointed for specific terms as required by provision A.7.2 but is being reviewed; and
- There is no formal performance evaluation or election process for the appointment of non-executive Directors. This is contrary to provision A.7.2.

## The Board of Directors

Throughout the period, the Board comprised a Chairman, and at least one executive Director.

The Board meets regularly and is responsible for strategy, performance, approval of major capital projects and the framework of internal controls. The Board has a formal schedule of matters specifically reserved to it for decision. To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed to all Directors in advance of Board meetings. All Directors have access to the advice and services of the Company Secretary. The appointment and removal of the Company Secretary is a matter for the Board as a whole. In addition, procedures are in place to enable the Directors to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

During the year, all serving Directors attended the monthly Board meetings that were held. In addition to the scheduled meetings there is frequent contact between all the Directors in connection with the Company's business including remuneration and audit committee meetings which are held as required, but as a minimum twice per annum.

## Corporate governance continued

A Nominations Committee is not considered appropriate because of the small size of the Board and the Company but all appointments or potential appointments are fully discussed by all Board members.

Directors are subject to re-election by the shareholders at Annual General Meetings. The Articles of Association provide that Directors will be subject to re-election at the first opportunity after their appointment and the Board submit to re-election at intervals of three years.

### Audit Committee

The Audit Committee consists of R Hayim (Chairman) and B J Ellis. The Audit Committee meets at least twice a year and is responsible for monitoring compliance with accounting and legal requirements and for reviewing the annual and interim financial statements prior to their submission for approval by the Board. The Committee also discusses the scope of the audit and its findings and considers the appointment and fees of the external auditors.

The Audit Committee believes that it is not currently appropriate for the Company to maintain an internal audit function due to its size.

The Audit Committee considers the independence and objectivity of the external auditors on an annual basis, with particular regard to non-audit services. The non-audit fees are considered by the Board not to affect the independence or objectivity of the auditors. The Audit Committee monitors such costs in the context of the audit fee for the period, ensuring that the value of non-audit services does not increase to a level where it could affect the auditors' objectivity and independence. The Board also receive an annual confirmation of independence from the auditors.

### Remuneration Committee

The Remuneration Committee consists of B J Ellis (Chairman) and R Hayim. The Committee's role is to consider and approve the remuneration and benefits of the executive Directors, including the award of share options. In framing the Company's remuneration policy, the Remuneration Committee has given full consideration to Section B of The Combined Code. The Report on Directors' Remuneration is set out on page 11.

### Internal financial control

The Board is responsible for establishing and maintaining the Company's system of internal financial control and places importance on maintaining a strong control environment. The key procedures which the Directors have established with a view to providing effective internal financial control are as follows:

- The Company's organisational structure has clear lines of responsibility.
- The Company prepares a comprehensive annual budget that is approved by the Board. Monthly results are reported against the budget and variances are closely monitored by the Directors.
- The Board is responsible for identifying the major business risks faced by the Company and for determining the appropriate courses of action to manage those risks.



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## Corporate governance continued

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The Directors recognise, however, that such a system of internal financial control can only provide reasonable, not absolute, assurance against material misstatement or loss. The Directors have reviewed the effectiveness of the system of internal financial control as it operated during the period to 30 June 2006 and up to the date of approval of the annual report and accounts.

### Relations with shareholders

Communications with shareholders are given high priority.

There is a regular dialogue with shareholders including presentations after the Company's preliminary announcement of the year end results and at the half year. The Board uses the Annual General Meeting to communicate with investors and welcomes their participation. The Chairman aims to ensure that the Directors are available at Annual General Meetings to answer questions.

### Directors' responsibilities statement

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss for that year. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of the Group in order 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In determining how amounts are presented within items in the profit and loss account and balance sheet, the Directors have had regard to the substance of the reported transaction or arrangement, in accordance with generally accepted accounting principles or practice. So far as each of the Directors is aware at the time the report is approved:

- there is no relevant audit information of which the Company's auditors are unaware; and
- the Directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

### Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

# Report on Directors' remuneration

**Remuneration Committee** The Remuneration Committee is responsible for determining and reviewing the terms of appointment and the remuneration of executive Directors. The Committee takes external advice, as appropriate, on remuneration issues and takes cognisance of major surveys covering all aspects of the pay and benefits of Directors and senior executives in many companies.

The Committee aims to provide base salaries and benefits which are competitive in the relevant external market and which take account of Company and individual performance thus enhancing the Company's ability to recruit and to retain individuals of the calibre required for its continuing business success. It is the policy of the Committee to provide financial incentives and to reward superior performance over the medium and long term by creating opportunities to enable senior executives to earn cash bonuses and share-related payments which result from achievement of performance targets.

The Remuneration Committee consists of B J Ellis (Chairman) and R Hayim.

**Service agreements** The Directors have service agreements, which require not more than 6 months' notice of termination. The remuneration packages consist of basic salary or fees, plus performance-related bonus arrangements for executive Directors.

	Salary and Fees £	Bonuses £	Pension Contributions £	Total 30 June 2006 £
J Cole	—	—	—	—
B J Ellis	—	—	—	—
S F Guyton	18,048	—	—	18,048
J L Hand	4,500	—	—	4,500
R Hayim	13,672	—	—	13,672
H B Lipsith	9,916	—	—	9,916
V W Nicholls	12,000	—	—	12,000
<b>Total</b>	<u>58,136</u>	<u>—</u>	<u>—</u>	<u>58,136</u>

Of the above fees, £18,048 was paid to WKH Chartered Accountants for the services of S F Guyton, and £12,000 to Spokes & Co for the services of V W Nicholls.

**Share options** The share options held by the Directors are set out in the Directors report on page 7.

**Directors' interests** The Directors' interests in the ordinary shares of the Company are set out in the Directors' Report on page 6.

On behalf of the Remuneration Committee

**B J Ellis**  
Director

19 October 2006



# Independent auditors' report

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## To the shareholders of Retec Digital PLC

We have audited the financial statements of Retec Digital PLC for the year ended 30 June 2006 which comprise the profit and loss account, the balance sheet, the cash flow statement, notes to the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of Directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

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

We read the other information and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Corporate Governance Statement.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies within the financial statements.

### Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. Our responsibilities do not extend to any other information.

# Independent auditors' report continued

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## Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 June 2006 and of its loss 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.

**haysmacintyre**  
*Chartered Accountants*  
*Registered Auditors*

19 October 2006

Fairfax House  
15 Fulwood Place  
London  
WC1V 6AY



# Profit and loss account

for the year ended 30 June 2006

	Notes	2006 £	2005 £
Turnover		43,758	—
Cost of sales		—	—
<b>Gross profit</b>		<u>43,758</u>	<u>—</u>
Administrative expenses		(173,224)	(148,410)
<b>Operating loss</b>	3	<u>(129,466)</u>	<u>(148,410)</u>
<b>Loss on ordinary activities before finance charges</b>		(129,466)	(148,410)
Interest receivable and similar income	4	56,837	38,859
Interest payable	5	(200)	(394)
<b>Loss on ordinary activities before taxation</b>		<u>(72,829)</u>	<u>(109,945)</u>
Taxation	6	—	—
<b>Deficit for the year</b>	12	<u><u>(72,829)</u></u>	<u><u>(109,945)</u></u>
Basic loss per share	7	(0.15p)	(0.45p)

All operations are continuing.

The Company has no recognised gains or losses other than the loss for the year.

The notes on pages 18 to 22 form part of these financial statements

# Balance sheet

as at 30 June 2006

	Notes	2006		2005	
		£	£	£	£
<b>Fixed assets</b>					
Investments	8	1,659,313		1,442,444	
<b>Current assets</b>					
Debtors:					
– falling due within one year	9	294,406		—	
– falling due in more than one year	9	320,020		29,654	
Cash at bank		104,558		167,575	
		<u>718,984</u>		<u>197,229</u>	
<b>Creditors: amounts falling due within one year</b>	10	<u>(117,677)</u>		<u>(37,470)</u>	
<b>Net current assets</b>			<u>601,307</u>		<u>159,759</u>
<b>Total assets less current liabilities</b>			<u><u>2,260,620</u></u>		<u><u>1,602,203</u></u>
<b>Capital and reserves</b>					
Called up share capital	11	1,499,694		1,320,091	
Share premium	12	1,916,754		1,365,111	
Profit and loss account	12	<u>(1,155,828)</u>		<u>(1,082,999)</u>	
<b>Shareholders' funds</b>	13		<u><u>2,260,620</u></u>		<u><u>1,602,203</u></u>

Approved by the Board of Directors on 19 October 2006 and signed on its behalf by:

C R H McKay  
Director

J Cole  
Director

The notes on pages 18 to 22 form part of these financial statements



# Cash flow statement

for the year ended 30 June 2006

	Notes	2006 £	2005 £
Net cash outflow from operating activities	1	(137,748)	(119,470)
Returns on investments and servicing of finance	2	54,626	38,465
Capital expenditure and financial investment	2	<u>(216,869)</u>	<u>(1,442,444)</u>
Net cash outflow before financing		(299,991)	(1,523,449)
Financing	2	<u>236,974</u>	<u>1,597,796</u>
(Decrease)/increase in cash in the year	3	<u>(63,017)</u>	<u>74,347</u>
<b>Reconciliation of net cash flow to movement in net funds</b>			
(Decrease)/increase in cash in the year		(63,017)	74,347
Cash outflow from issue of commercial loans		<u>485,520</u>	<u>—</u>
Change in net funds resulting from cash flows		<u>422,503</u>	<u>74,347</u>
Movement in net funds in the year		422,503	74,347
Net funds at 1 July 2005		<u>167,575</u>	<u>93,228</u>
Net funds at 30 June 2006	3	<u>590,078</u>	<u>167,575</u>

# Notes to the cash flow statement

for the year ended 30 June 2006

1. Reconciliation of operating loss to net cash outflow from operating activities		<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Operating loss	(129,466)	(148,410)
	(Increase)/decrease in debtors	(30,457)	60,515
	Increase/(decrease) in creditors	22,175	(31,575)
	<b>Net cash outflow from operating activities</b>	<u>(137,748)</u>	<u>(119,470)</u>
2. Analysis of cash flows for headings netted in the cash flow statement		<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	<b>Returns on investments and servicing of finance</b>		
	Interest received	54,826	38,859
	Interest paid	(200)	(394)
	<b>Net cash inflow for returns on investments and servicing of finance</b>	<u>54,626</u>	<u>38,465</u>
	<b>Capital expenditure and financial investment</b>		
	Purchase of fixed asset investments	(216,869)	(1,442,444)
	<b>Net cash outflow for capital expenditure and financial investment</b>	<u>(216,869)</u>	<u>(1,442,444)</u>
	<b>Financing</b>		
Commercial loans issued	(485,520)	—	
Shares issued (net of issue costs)	722,494	1,597,796	
<b>Net cash inflow from financing</b>	<u>236,974</u>	<u>1,597,796</u>	
3. Analysis of changes in net funds		<b>Balance at</b>	<b>Balance at</b>
		<b>1 July</b>	<b>30 June</b>
		<b>2005</b>	<b>2006</b>
		<b>£</b>	<b>£</b>
	Cash at bank	167,575	(63,017)
Cash outflow from issue of commercial loans	—	485,520	485,520
<b>Total</b>	<u>167,575</u>	<u>422,503</u>	<u>590,078</u>



# Notes to the financial statements

for the year ended 30 June 2006

## 1. Accounting policies

### Accounting convention

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

### Turnover

Turnover represents fees receivable in respect of consultancy services provided in the year. All turnover arises in the United Kingdom. The Company became registered for value added tax during the year. Turnover excludes value added tax.

### Deferred tax

The charge for taxation is based on the result for the year and takes into account deferred taxation. Provision is made for material deferred taxation, in respect of all timing differences that have originated but not reversed at the balance sheet date. Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

### Fixed asset investments

Investments are stated at cost less amounts written off.

### Interest receivable

Interest is accounted for when receivable.

## 2. Staff costs

	2006 £	2005 £
Wages and salaries	58,136	43,475

The average monthly number of employees during the year was as follows:

	Number	Number
Administration	4	4

## 3. Operating loss

	2006 £	2005 £
The operating loss is stated after charging:		
Auditors' remuneration		
– audit	5,000	3,005
– other	4,897	—
Directors' emoluments	58,136	43,475

# Notes to the financial statements continued

for the year ended 30 June 2006

<b>4. Interest receivable</b>		<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Secured convertible loan	43,356	30,721
	Commercial loans	8,526	—
	Bank interest	4,955	8,138
		<u>56,837</u>	<u>38,859</u>
<b>5. Interest payable and similar charges</b>		<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	Loan interest	<u>200</u>	<u>394</u>
<b>6. Taxation</b>	<b>Analysis of the tax charge</b>		
	No liability to UK corporation tax arose on ordinary activities for the year ended 30 June 2006 nor for the year ended 30 June 2005.		
	As at 30 June 2006, the Company had carried forward tax losses of £567,462.		
<b>7. Earnings per share</b>	The basic earnings per share is calculated by dividing the loss for the financial year attributable to shareholders by the weighted average number of shares in issue. In calculating the diluted earnings per share, share options and warrants outstanding have not been taken into account, as the Company has incurred a loss from continuing net operations.		
		<b>2006</b>	<b>2005</b>
		<b>Number</b>	<b>Number</b>
	Basic weighted average number of shares	47,054,984	—
	Weighted number of shares adjusted for share reorganisation	—	24,397,211
	Adjusted weighted average number of ordinary shares	<u>47,054,984</u>	<u>24,397,211</u>
	Basic earnings per share	(0.15p)	(0.45p)
	Diluted earnings per share	(0.15p)	(0.45p)
<b>8. Fixed asset investments</b>		<b>2006</b>	<b>2005</b>
		<b>£</b>	<b>£</b>
	<b>Convertible loans</b>		
	At 1 July 2005	1,442,444	—
	Issued in the year	216,869	1,442,444
	At 30 June 2006	<u>1,659,313</u>	<u>1,442,444</u>

Additional information is as follows:

These loans consist of subordinated secured convertible loan notes held in Retec Interface Limited.



# Notes to the financial statements continued

for the year ended 30 June 2006

9. Debtors	2006	2005
	£	£
Trade debtors	17,000	—
Commercial loans (£320,020 falling due in more than one year)	491,520	—
Other debtors	99,280	20,551
Prepayments	6,626	9,103
	<u>614,426</u>	<u>29,654</u>
10. Creditors: amounts falling due within one year	2006	2005
	£	£
Trade creditors	91,158	10,518
Accrued expenses	26,519	26,952
	<u>117,677</u>	<u>37,470</u>
11. Called up share capital	2006	2005
	£	£
<b>Authorised:</b>		
100,000,000 Ordinary shares of 0.5p each	500,000	500,000
100,000 Deferred shares of 1p each	1,000	1,000
90,000,000,000 Deferred 'B' shares of 0.005p each	4,500,000	4,500,000
	<u>5,001,000</u>	<u>5,001,000</u>
<b>Allotted, issued and fully paid</b>		
65,465,225 Ordinary shares of 0.5p each	327,326	147,723
36,250 Deferred shares of 1p each	365	365
23,440,062,357 Deferred 'B' shares of 0.005p each	1,172,003	1,172,003
	<u>1,499,694</u>	<u>1,320,091</u>
During the year 35,920,712 Ordinary shares of 0.5p each were issued as follows, giving the Company total issued Ordinary shares of 65,465,225:		
		Number
Allotted for cash at 2p each		23,585,720
Allotted for cash at 3.25p each		<u>12,334,992</u>
		<u>35,920,712</u>

# Notes to the financial statements continued

for the year ended 30 June 2006

11. **Called up share capital** *continued* At 30 June 2006, the Company had the following warrants in issue:

At 1 July 2005	Number of warrants granted	At 30 June 2006	Exercise price (pence)	Exercise date
134,792	—	134,792	742p	12/07/00 - 31/01/07
129,630	—	129,630	900p	28/09/00 - 28/09/07
2,000,000	—	2,000,000	10p	04/10/04 - 31/03/10
—	2,320,000	2,320,000	2p	14/10/05 - 30/09/10

At 30 June 2006, the Company had the following share options in issue:

At 1 July 2005	Number of share options granted	At 30 June 2006	Exercise price (pence)	Exercise date
1,381,858	—	1,381,858	5p	12/07/00 - 31/12/11
60,000	—	60,000	125p	19/06/02 - 18/06/12
—	7,153,350	7,153,350	2p	13/10/05 - 13/10/10

12. **Reserves**

	Profit and loss account £	Share premium £
At 1 July 2005	(1,082,999)	1,365,111
Deficit for the year	(72,829)	—
Premium on share issue	—	698,784
Issue costs	—	(147,141)
At 30 June 2006	<u>(1,155,828)</u>	<u>1,916,754</u>

Share issue costs include fees of £88,665 incurred as at 30 June 2006 in relation to the Offer for Subscription detailed in note 15, post balance sheet events.

13. **Reconciliation of movements in shareholders' funds**

	2006 £	2005 £
Loss for the financial year	(72,829)	(109,945)
Share issues	179,603	1,078,066
Share premium	698,784	519,730
Issue costs	(147,141)	—
Net increase to shareholders' funds	658,417	1,487,851
Opening shareholders' funds	<u>1,602,203</u>	<u>114,352</u>
Closing shareholders' funds	<u>2,260,620</u>	<u>1,602,203</u>



# Notes to the financial statements continued

for the year ended 30 June 2006

- 14. Related party transactions** The Company was charged £13,672 by RH & Associates, of which R Hayim is a partner, for the services of R Hayim (2005: £Nil). Included within trade creditors is £7,108 owed to RH & Associates.
- During the year the Company was charged £18,048 by WKH Chartered Accountants, of which S F Guyton is a partner, relating to the services of S F Guyton and accountancy fees of £14,500 (2005: £Nil). Included within trade creditors is £11,750 owed to WKH Chartered Accountants.
- During the year the Company was charged £12,000 (2005: £28,200) by Spokes & Co for the services of V W Nicholls.
- Fees paid to Griffin Securities (UK) Limited, a company in which V W Nicholls has an interest, were £6,000 in respect of company secretarial fees (2005: £88,125 loan arrangement fees, due diligence costs of £11,750 and share issue costs of £30,116).
- The Company also purchased loan notes in Retec Interface Limited with a cost of £216,869 (2005: £1,442,444) included within investments and issued commercial loans to Retec Interface Limited totalling £491,250 (2005: £nil), included within debtors. J Cole, B J Ellis, Sir Brian Ivory and C R H McKay, Directors of the Company, are or have been Directors of Retec Interface Limited. Total interest receivable in the year on these financing arrangements is £51,882 (2005: £30,721). The Company also charged Retec Interface Limited loan arrangement fees of £10,000 (2005: £Nil) and consultancy fees of £10,250 (2005: £nil).
- 15. Post balance sheet events** On 14 September 2006, the enlarged issued share capital of the Company was readmitted to trading on AIM following the acquisition of Retec Interface Limited. As part of this transaction the Company raised £1,584,250 (before expenses) through the issue of 42,246,666 new Ordinary shares.
- Following the issue of equity pursuant to the acquisition of Retec Interface Limited, of 17,443,750 new Ordinary shares, and the Offer for Subscription the enlarged share capital of the Company is now 125,155,641 Ordinary shares of 0.5p.
- The money raised will provide the Company with additional working capital resources to further assist the development of Retec Interface Limited.
- 16. Ultimate controlling party** In the opinion of the Directors, the Company has no ultimate controlling party.

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# Notice of Annual General Meeting

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NOTICE IS HEREBY GIVEN that the Annual General Meeting of Retec Digital PLC (the "Company") will be held at the offices of Edwin Coe at 2 Stone Buildings, Lincoln's Inn, London WC2A 3TH on 23 November 2006 at 10.30 am, for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed, in the case of Resolutions 1 to 6 inclusive, as ordinary resolutions and, in the case of Resolution 7, as a special resolution:

1. That the report of the Directors and the audited accounts of the Company for the year ended 30 June 2006 be received.
2. That B J Ellis be re-elected as a Director of the Company.
3. That Sir Brian Ivory be elected as a Director of the Company.
4. That C R H McKay be elected as a Director of the Company.
5. That haysmacintyre be appointed auditors of the Company, and that the Directors be authorised to determine the auditors' remuneration.
6. That the Directors be generally and unconditionally authorised under section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (as defined in that section) up to an aggregate nominal amount of £210,000 (representing approximately 33 per cent. of the issued share capital) provided that:
  - (a) this authority shall expire (unless previously revoked by the Company) on the earlier of the date falling 15 months after the date of the passing of this resolution and the conclusion of the subsequent Annual General Meeting of the Company; and
  - (b) the Company may make an offer or agreement before this authority expires which would or might require relevant securities to be allotted after it has expired and may allot relevant securities under any such offer or agreement notwithstanding that this authority has expired.
7. That subject to the passing of resolution 6, the Directors shall have the power under section 95 of the Companies Act 1985 (the "Act") to allot equity securities (as defined in section 94 of the Act) for cash under the authority conferred by resolution 6 as if section 89(1) of the Act did not apply to the allotment provided that:
  - (a) this power shall be limited to:
    - (i) the allotment of equity securities in connection with an offer or issue of such securities to holders of Ordinary shares on the register on a date fixed by the Directors, whether by way of rights issue, open offer or otherwise, in proportion (as nearly as practicable) to their respective holdings on that date or in accordance with the rights attached to them but subject to such exclusions and other arrangements as the Directors may consider appropriate in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange; and



# Notice of Annual General Meeting continued

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- (ii) the allotment (other than under paragraph (i) above) of equity securities having, in the case of relevant shares (as defined for the purposes of section 89), a nominal amount or, in the case of other equity securities, giving the right to subscribe for or convert into relevant shares having a nominal amount not exceeding in aggregate £94,000 (representing approximately 15 per cent. of the issued share capital);
- (b) this power shall expire with the authority given by resolution 6; and
- (c) this power applies in relation to a sale of shares which is an allotment of equity securities by virtue of section 94(3A) of the Act as if in paragraph (a) above the words “under the authority conferred by resolution 6” were omitted.

BY ORDER OF THE BOARD

**V J Hawrych**  
*Company Secretary*

19 October 2006

*Registered Office:*

The Cellars  
Works Road  
Letchworth  
Hertfordshire  
SG6 1FR

*Notes:*

1. An ordinary shareholder entitled to attend and vote at the Annual General Meeting may appoint one or more Proxies to attend and, on a poll, vote instead of him. Your Proxy can, depending upon your shareholding, demand (or join in demanding) a poll on any or all of the resolutions. A Proxy need not be a member of the Company.
2. A Form of Proxy is attached. To be valid, the Form of Proxy (together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such authority) must be deposited at the Company's Registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours prior to the time fixed for the meeting. A pre-paid Form of Proxy is attached with this Notice. Completion of the Form of Proxy will not preclude an ordinary shareholder from attending and voting in person.
3. In the case of joint holders the vote of the senior holder who tenders a vote, whether in person or by Proxy, will be accepted to the exclusion of the votes of any other joint holders. For these purposes, seniority shall be determined by the order in which the names stand in the register of members in respect of the joint holding.
4. In the case of a corporation the Form of Proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or a duly authorised officer of the corporation.
5. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only shareholders registered in the register of members of the Company 48 hours before the Annual General Meeting shall be entitled to attend or vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after that time will be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

# Form of Proxy

## ANNUAL GENERAL MEETING

to be held on 23 November 2006

I/We .....  
(name in full in block capitals)

of .....  
(full post code address in block capitals)

being (a) member(s) of the above-named Company hereby appoint the Chairman of the Meeting or

.....  
of .....  
as my/our Proxy to attend and, on poll, vote on my/our behalf at the Annual General Meeting of the Company to be held on 23 November 2006 or at any adjournment thereof. The Form of Proxy relates to the resolutions referred to below and to any other business transacted at the meeting. The Proxy is instructed to vote in respect of the resolutions as specified below:

	RESOLUTIONS	For	Against	Abstain
1.	To receive the accounts for the year ended 30 June 2006			
2.	To re-elect B J Ellis as a Director			
3.	To elect Sir Brian Ivory as a Director			
4.	To elect C R H McKay as a Director			
5.	To appoint haysmacintyre as auditors			
6.	To authorise the Directors to allot securities			
7.	To disapply pre-emption rights			

Signature.....Dated .....2006

### Notes:

- To be valid this Form of Proxy, together with any power of attorney or other written authority under which it is signed, or an office or notarially certified copy or a copy certified in accordance with the Powers of Attorney Act 1971 of such power or written authority must be completed, signed and deposited with Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 48 hours before the meeting.
- Your Proxy can vote for you on a poll. Your Proxy can, depending on your shareholding, demand (or join in demanding) a poll on any or all of the resolutions proposed.
- A corporation must execute this Form of Proxy either under its common seal or under the hand of two directors or one director and the secretary or under the hand of an officer or attorney duly authorised in writing.
- If you wish to appoint any other person as Proxy delete the words "the chairman of the meeting" and add the name and address of the Proxy appointed. A Proxy need not be a member of the Company. If you complete the Form of Proxy but do not delete the words "the chairman of the meeting" and you do not appoint a Proxy, the Chairman shall be entitled to vote as Proxy.
- In the case of joint holders, the signature of any one holder will be sufficient but the names of all the joint holders should be stated and the vote of the senior who tenders a vote, whether in person or by Proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority will be determined by the order in which the names stand in the register of members.
- Any alteration to this Form of Proxy must be initialled.
- Returning the Form of Proxy will not prevent you from attending the meeting and voting in person.



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Licence No. MB 122

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Capita Registrars  
(Proxies)  
PO Box 25  
BECKENHAM  
Kent  
BR3 4BR

1ST FOLD

2ND FOLD

For your notes

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RETEC DIGITAL PLC

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For your notes

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