COMPANY REGISTRATION NUMBER 4154546

SMART421 TECHNOLOGY GROUP PLC

FINANCIAL STATEMENTS

30 JUNE 2006

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COMPANIES HOUSE 25/11/2006

ENSORS
Chartered Accountants & Registered Auditors
46 St Nicholas Street
IPSWICH
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SMART421 TECHNOLOGY GROUP PLC

FINANCIAL STATEMENTS

YEAR ENDED 30 JUNE 2006

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SMART421 TECHNOLOGY GROUP PLC

THE DIRECTORS' REPORT

YEAR ENDED 30 JUNE 2006

The directors have pleasure in presenting their report and the financial statements of the group for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the year was to act as a holding company for its subsidiaries. The company did not trade in its own right. Smart421 Limited, the main subsidiary, provides IT services specialising in the delivery of innovative IT solutions, the design, build and operation of complex integration projects and application service management. The group retains a broad base of blue chip clients across a range of industry sectors.

All of the other subsidiaries are now dormant.

The year ended 30 June 2006 has been a successful year for all the group's services. In particular, the significant investment made in developing its innovative service management products is now generating substantial returns.

Over the last two years there has been a material transition in revenue terms from a largely projects and consulting business to a more stable and repeatable service management and consulting business. The long term, sustainable nature of service management revenues is increasingly providing protection against the inherent variability of project revenues that are typically generated from a small number of high value assignments. Service Management revenues have doubled from £1.4m in 2004/5 to £2.8m in 2005/6.

Gross margin was 46% for the year compared to 39% in 2004/5. A key factor in the improvement is the greater element of higher margin service management revenues.

Staff are the principal cost of sale for the business and the key metrics are bill, cost and utilisation rates. In this regard, Smart421 has been very effective at maintaining high utilisation rates, in the region of 90% over the past 4 years. Average bill rates per hour have been steadily rising over the past 4 years outpacing the rise in average cost rate per hour.

The group manages its overheads tightly whilst retaining an experienced management and office support team. The increase in revenues in the year has enabled the group to better leverage its non fee earning costs with operating overheads falling from 37% in 2004/5 to 34% of sales in 2005/6.

Smart421 is highly cash generative with cash and short term investment balances rising to £3.4m at the year end. To date these balances have been retained in the group to strengthen its balance sheet and provide security to customers entering into long term contracts with the group. The group's Dun & Bradstreet credit rating is expected to rise significantly once the 2005/6 accounts are filed.

The group faces various business and financial risks. In common with most IT service companies the group's performance is impacted by the cyclical nature of UK IT service spending. Currently the group's experience is that market conditions continue to improve after a sustained period of depressed activity levels. The group's strategy of focussing on complex and innovative integration and service management has meant that the group is exposed to some of the fastest growing areas within this market. Thi s sector is also less vulnerable to competition from offshore service providers. The group does however have an established partnership with a major Indian based service provider which it uses for the small proportion of services that can efficiently be taken offshore.

The financial risks facing the group are considered under a separate heading below.

The group made a profit before tax for the year of £1,478,000 (2005 - £255,000). After adjusting for one-off pension contributions for the shareholder director and charitable donations, the underlying profit before tax was £1,756,000 (2005 - £650,000).

The group retains a strong balance sheet and is well positioned to maintain its core business and exploit new opportunities as they arise in any of the group's areas of operation.

FUTURE DEVELOPMENTS

The group continues to win work both from existing and new blue chip clients against much larger competitors. Of particular note has been the growth in service management work, typically on long term contracts, which helps underpin the sustainability of current revenues.

The directors are confident that the group's competitive strengths, notably its enviable delivery track record, its innovative products and services, and its global sourcing strategy, will enable the group to prosper and grow in the future.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £1,038,000. The directors have not recommended a dividend.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The objective of the group is to manage its financial risks as well as its other business risks within parameters agreed and approved by the group's management.

The financial risks to which the group is materially exposed and the policies adopted to address these risks are as follows:

Credit risk

The group's existing customer base consists almost exclusively of blue chip, publicly listed, UK and multinational companies. Credit risk is therefore generally low. In addition, all significant customers are monitored via Dun and Bradstreet so that any deterioration in credit ratings is identified at an early stage.

The group typically invoices for services at the time they are performed and collects trade debt within 45 days. As a result, the balances subject to credit risk that remain are minimised.

Cashflow and liquidity risk

The group maintains significant cash assets on its balance sheet to enable it to provide assurance to customers entering into high value and/or long term contracts with the group.

These assets represent approximately four months of trading expenses and hence cashflow and liquidity risks are minimised.

Price risk

The complex, high value IT services that the group provides are currently in high demand and not subject to the same pricing pressures being experienced for commodity services.

Additionally, the group operates a flexible mixed model using both permanent and contracted staff that enables it to respond quickly to both price and demand fluctuations.

Foreign exchange risk

Over 90% of the group's business is conducted within the UK. The balance is largely within Europe. A small foreign exchange risk exists in relation to the modest net asset balances held or denominated in Euros. The group's policy is to convert surplus Euros into sterling so that any such foreign exchange risk is minimised.

RESEARCH AND DEVELOPMENT

The group's research and development effort has been and will continue to be linked to specific new business opportunities.

THE DIRECTORS AND THEIR INTERESTS

The directors who served the company during the year together with their beneficial interests, including family holdings, in the shares of the company were as follows:

	Ordinary Shares of £0.10 each	
	At 30 June 2006	At 1 July 2005
J C Carrington	**-**	-
J J Harris	**20,000,010**	20,000,010

In addition, Seachange Systems Limited, a company in which J J Harris is a shareholder, held 387,500 deferred ordinary shares of £1 each in Smart421 Limited at 30 June 2006 and 30 June 2005.

J C Carrington was granted 50,000 share options in the year. At the year end he held 60,000 share options. None were exercised in the year.

POLICY ON THE PAYMENT OF CREDITORS

The group undertakes to pay all its creditors within the terms agreed, normally 30 days. The company's systems and quality control procedures, including purchasing and creditor payments, are ISO9001 accredited.

At the year end, there were 52 days (2005 - 29 days) purchases in trade creditors.

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 group and of the profit or loss of the group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies, as described on pages 12 to 15, 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 group will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the group'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.

DONATIONS

During the year the group made the following contributions:

	2006	2005
	£	£
Charitable	**2,483**	26,951

AUDITOR

A resolution to re-appoint Ensors as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Signed by order of the directors

Alison Greatorex

A GREATOREX
Company Secretary

Approved by the directors on 19 September 2006

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SMART421 TECHNOLOGY GROUP PLC

YEAR ENDED 30 JUNE 2006

We have audited the group and parent company financial statements ("the financial statements") of Smart421 Technology Group plc for the year ended 30 June 2006 on pages 8 to 26 which have been prepared on the basis of the accounting policies set out on pages 12 to 15.

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 AUDITOR

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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF SMART421 TECHNOLOGY GROUP PLC *(continued)*

YEAR ENDED 30 JUNE 2006

OPINION
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 30 June 2006 and of the group's profit for the year then ended and 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.

Ensors

ENSORS
Chartered Accountants
& Registered Auditors

46 St Nicholas Street
IPSWICH
IP1 1TT

21 September 2006

SMART421 TECHNOLOGY GROUP PLC

GROUP PROFIT AND LOSS ACCOUNT

YEAR ENDED 30 JUNE 2006

	Note	2006 £000	2005 *(restated)* £000
GROUP TURNOVER	2	**11,146**	8,856
Cost of sales		**6,010**	5,422
GROSS PROFIT		**5,136**	3,434
Administrative expenses		**3,736**	3,315
Other operating income	3	**-**	(16)
OPERATING PROFIT	4	**1,400**	135
Share of joint venture operating profit		**9**	8
		1,409	143
Interest receivable and similar income		**68**	111
Share of joint venture interest receivable		**1**	1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		**1,478**	255
Tax on profit on ordinary activities	7	**440**	99
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		**1,038**	156
Minority interests		**12**	-
PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY	8	**1,026**	156
PROFIT FOR THE FINANCIAL YEAR		**1,026**	156

All of the activities of the group are classed as continuing.

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £1,026,000 attributable to the shareholders for the year ended 30 June 2006 (2005 - profit of £156,000).

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account.

The notes on pages 12 to 26 form part of these financial statements.

SMART421 TECHNOLOGY GROUP PLC

GROUP BALANCE SHEET

30 JUNE 2006

	Note	2006 £000	2005 *(restated)* £000
FIXED ASSETS			
Intangible assets	9	–	–
Tangible assets	10	261	185
		261	185
Investments in joint ventures:			
Share of gross assets		51	50
Share of gross liabilities		(38)	(29)
	11	13	21
		274	206
CURRENT ASSETS			
Debtors	12	2,950	2,205
Investments	13	504	297
Cash at bank and in hand		2,895	1,499
		6,349	4,001
CREDITORS: Amounts falling due within one year	14	2,578	1,199
NET CURRENT ASSETS		3,771	2,802
TOTAL ASSETS LESS CURRENT LIABILITIES		4,045	3,008
CREDITORS: Amounts falling due after more than one year	15	388	388
		3,657	2,620
MINORITY INTERESTS		–	11
		3,657	2,631
CAPITAL AND RESERVES			
Called-up equity share capital	20	2,000	2,000
Other reserves	21	540	540
Profit and loss account	21	1,117	91
SHAREHOLDERS' FUNDS	22	3,657	2,631

These financial statements were approved by the directors on the 19th September 2006 and are signed on their behalf by:

J C CARRINGTON

J HARRIS

The notes on pages 12 to 26 form part of these financial statements.

SMART421 TECHNOLOGY GROUP PLC

BALANCE SHEET

30 JUNE 2006

	Note	2006 £000	2005 £000
FIXED ASSETS			
Investments	11	2,009	2,009
CURRENT ASSETS			
Debtors	12	41	26
CREDITORS: Amounts falling due within one year	14	9	9
NET CURRENT ASSETS		32	17
TOTAL ASSETS LESS CURRENT LIABILITIES		2,041	2,026
CAPITAL AND RESERVES			
Called-up equity share capital	20	2,000	2,000
Profit and loss account	21	41	26
SHAREHOLDERS' FUNDS		2,041	2,026

These financial statements were approved by the directors on the 19th September 2006 and are signed on their behalf by:

J C CARRINGTON

J J HARRIS

The notes on pages 12 to 26 form part of these financial statements.

SMART421 TECHNOLOGY GROUP PLC

GROUP CASH FLOW

YEAR ENDED 30 JUNE 2006

	Note	2006 £000	2005 *(restated)* £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	**23**	**1,733**	52
DIVIDENDS RECEIVED FROM JOINT VENTURES		**15**	26
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		**68**	111
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		**68**	111
TAXATION		**(39)**	(344)
CAPITAL EXPENDITURE			
Payments to acquire tangible fixed assets		**(174)**	(83)
Receipts from sale of fixed assets		**–**	4
NET CASH OUTFLOW FROM CAPITAL EXPENDITURE		**(174)**	(79)
CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES		**1,603**	(234)
MANAGEMENT OF LIQUID RESOURCES*			
Cash placed in short term deposits		**(900)**	–
Sale of short term deposits		**–**	1,000
Cash placed in other liquid investments		**(480)**	(250)
Sale of other liquid investments		**273**	345
NET CASH (OUTFLOW)/INFLOW FROM MANAGEMENT OF LIQUID RESOURCES		**(1,107)**	1,095
INCREASE IN CASH	**24**	**496**	861

*Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.

Liquid resources comprise term deposits of less than one year (other than cash), government securities and investments in money market managed funds.

The notes on pages 12 to 26 form part of these financial statements.

1. ACCOUNTING POLICIES

Basis of accounting

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

Changes in accounting policies

In preparing the financial statements for the current year, the group has adopted the following Financial Reporting Standards:

-FRS 21 Events after the Balance Sheet date (IAS 10);

-the presentation requirements of 'FRS 25 Financial Instruments: Disclosure and Presentation (IAS 32)'; and

FRS 21 Events after the Balance Sheet date (IAS 10)

The adoption of FRS 21 has resulted in a change in accounting policy in respect of proposed equity dividends. If the company declares dividends to the holders of equity instruments after the balance sheet date, the company does not recognise those dividends as a liability at the balance sheet date. The aggregate amount of equity dividends proposed before approval of the financial statements, which have not been shown as liabilities at the balance sheet date, are disclosed in the notes to the financial statements. Previously, proposed equity dividends were recorded as liabilities at the balance sheet date.

This change of policy has not affected the results for the current or previous period.

FRS 25 Financial Instruments: Disclosure and Presentation (IAS 32)

The adoption of the presentation requirements of FRS 25 has resulted in the Deferred Ordinary Shares in Smart421 Limited being classified as liabilities. Previously they had been classified as a minority interest.

1. ACCOUNTING POLICIES *(continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings. These are adjusted, where appropriate, to conform to group accounting policies.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of companies acquired or disposed of are included in the group profit and loss account after or up to the date that control passes respectively.

Transactions that qualify under FRS 6 as a group reconstruction are accounted for using merger accounting. Accordingly, no goodwill arises on the business combination.

As a consolidated group profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 230 of the Companies Act 1985.

Turnover

The turnover shown in the group profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

In respect of long-term contracts and contracts for on-going services, turnover represents the value of work done in the year, including estimates of amounts not invoiced. Turnover in respect of long-term contracts and contracts for on-going services is recognised by reference to the stage of completion.

Research and development

Research and development expenditure is written off against profits in the year in which it is incurred.

Goodwill

Positive purchased goodwill arising on acquisitions is capitalised, classified as an asset on the Balance Sheet and amortised over its estimated useful life up to a maximum of 20 years. This length of time is presumed to be the maximum useful life of purchased goodwill because it is difficult to make projections beyond this period. Goodwill is reviewed for impairment at the end of the first full financial year following each acquisition and subsequently as and when necessary if circumstances emerge that indicate that the carrying value may not be recoverable.

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill - considered on an annual basis

Fixed assets

All fixed assets are initially recorded at cost.

1. ACCOUNTING POLICIES *(continued)*

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Fixtures & Fittings	- 10 years straight line
Equipment	- 3 years straight line

Operating lease agreements

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pension costs

The group operates defined contribution pension schemes through Smart421 Limited, a subsidiary undertaking. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Investments

All investments are initially recorded at cost, being the fair value of the consideration given and including acquisition costs associated with the investment. All purchases and sales of investments are recognised using trade date accounting.

1. ACCOUNTING POLICIES *(continued)*

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the profit and loss account. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is disposed of or until its value is impaired, at which time the cumulative gain or loss previously reported in equity is included in the profit and loss account.

Investments classified as held-to-maturity are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in the profit and loss account when the investment in derecognised, or impaired, as well as through the amortisation process.

Investments are fair valued using quoted market prices, independent appraisals, discounted cash flow analysis or other appropriate valuation models at the balance sheet date.

Trade and other debtors

Trade and other debtors are recognised and carried forward at invoiced amounts less provisions for any doubtful debts. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents are included in the balance sheet at cost. Cash and cash equivalents comprise cash at bank and in hand and short term deposits with an original maturity of three months or less.

Employee share schemes

The cost of awards to employees that take the form of shares or rights to shares are recognised over the period of the employee's related performance.

2. TURNOVER

The turnover and profit before tax are attributable to the one principal activity of the group.

An analysis of turnover is given below:

	2006	2005 *(restated)*
	£000	£000
United Kingdom	**10,616**	8,537
Europe	**518**	311
North America	**12**	8
	11,146	8,856

The share of the joint venture's turnover is £9,000 (2005 - £9,000).

3. OTHER OPERATING INCOME

	2006	2005 *(restated)*
	£000	£000
Rent receivable	–	16

4. OPERATING PROFIT

Operating profit is stated after charging:

	2006	2005 *(restated)*
	£000	£000
Depreciation of owned fixed assets	98	75
Loss on disposal of fixed assets	–	7
Auditor's remuneration		
- as auditor	11	10
- for other services	22	13
Operating lease costs:		
Other	100	137
Net loss on foreign currency translation	2	–

5. PARTICULARS OF EMPLOYEES

The average number of staff employed by the group during the financial year amounted to:

	2006	2005 *(restated)*
	No	No
Number of consultancy and administrative staff	80	77

The aggregate payroll costs of the above were:

	2006	2005 *(restated)*
	£000	£000
Wages and salaries	4,297	3,673
Social security costs	477	412
Other pension costs	439	524
	5,213	4,609

6. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2006	2005 *(restated)*
	£000	£000
Emoluments receivable	136	134
Value of company pension contributions to money purchase schemes	286	377
	422	511

The number of directors who accrued benefits under company pension schemes was as follows:

	2006	2005 *(restated)*
	No	No
Money purchase schemes	1	1

7. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2006	2005 *(restated)*
	£000	£000
Current tax:		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	440	84
(Over)/under provision in prior year	(2)	13
	438	97
Share of joint venture taxation charge	2	2
Total current tax	440	99

7. TAXATION ON ORDINARY ACTIVITIES *(continued)*

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 30% (2005 - 30%).

	2006	2005 *(restated)*
	£000	£000
Profit on ordinary activities before taxation	**1,478**	255
Profit/(loss) on ordinary activities by rate of tax	**443**	76
Expenses not deductible for tax purposes	**9**	19
Capital allowances in excess of depreciation	**(13)**	(9)
Other timing differences	**3**	-
Over/under provision in prior year	**(2)**	13
Total current tax (note 7(a))	**440**	99

8. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

The profit dealt with in the accounts of the parent company was £15,000 (2005 - £26,000).

9. INTANGIBLE FIXED ASSETS

Group	**Goodwill £000**
COST	
At 1 July 2005	**854**
Disposals	**(307)**
At 30 June 2006	**547**
AMORTISATION	
At 1 July 2005	**854**
On disposals	**(307)**
At 30 June 2006	**547**
NET BOOK VALUE	
At 30 June 2006	**-**
At 30 June 2005	-

10. TANGIBLE FIXED ASSETS

Group	Fixtures & Fittings £000	Equipment £000	Total £000
COST			
At 1 July 2005	134	802	936
Additions	–	174	174
At 30 June 2006	134	976	1,110
DEPRECIATION			
At 1 July 2005	63	688	751
Charge for the year	14	84	98
At 30 June 2006	77	772	849
NET BOOK VALUE			
At 30 June 2006	57	204	261
At 30 June 2005	71	114	185

11. INVESTMENTS

Company	Group companies £000	Associated undertakings £000	Total £000
COST			
At 1 July 2005 and 30 June 2006	2,004	5	2,009
NET BOOK VALUE			
At 30 June 2006	2,004	5	2,009
At 30 June 2005	2,004	5	2,009

11. INVESTMENTS *(continued)*

Subsidiary undertakings

The undertakings in which the group and company's interest at the year end is more than 20% are as follows:

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Smart421 Limited	England	Ordinary shares	100%	IT consultancy
Oakington Technologies Ltd	England	Ordinary shares	100%	Dormant
Smart421 Solutions Inc	USA	Ordinary shares	100%	Dormant
Smart421 Pty Ltd	Australia	Ordinary shares	100%	Dormant
SmartIntegrator Technology Ltd	England	Ordinary shares	50%	Software development

All of the above subsidiary undertakings are included in the consolidated accounts. Smart421 Limited is the immediate parent undertaking of Oakington Technologies Limited. Smart421 Technology Group plc is the immediate parent undertaking of Smart421 Limited, Smart421 Solutions Inc and Smart421 Pty Limited. Smart421 Technology Group plc is the ultimate undertaking of all the above subsidiary undertakings.

The purchase of 100% of the ordinary share capital of Smart421 Limited qualified under FRS 6 as a group reconstruction and has therefore been accounted for using merger accounting. Accordingly, no goodwill arose on the business combination.

The consideration given for the net assets on acquisition of £2.665m was 19,999,990 10p ordinary shares. The difference between the nominal value of the shares given as consideration and the share capital and the share premium was taken to other reserves.

GiveUsThe.com, which was dormant, was struck off during the year.

Interests in joint venture:

SmartIntegrator is considered a joint venture. The group's share of its net assets is made up as follows:

Cost	5
Group's share of post-acquisition reserves	
At 1 July 2005	16
Share of retained profits for the year	7
Dividends	(15)
Share of net assets	13

12. DEBTORS

	Group 2006	Group 2005 *(restated)*	Company 2006	Company 2005
	£000	£000	**£000**	£000
Trade debtors	**2,297**	1,533	**–**	–
Amounts owed by undertakings in which the company has a participating interest	**48**	30	**41**	26
Prepayments and accrued income	**605**	642	**–**	–
	2,950	2,205	**41**	26

13. INVESTMENTS

	Group 2006	Group 2005 *(restated)*	Company 2006	Company 2005
	£000	£000	**£000**	£000
Treasury Stock	**504**	297	**–**	–

14. CREDITORS: Amounts falling due within one year

	Group 2006	Group 2005 *(restated)*	Company 2006	Company 2005
	£000	£000	**£000**	£000
Trade creditors	**745**	373	**–**	–
Amounts owed to group undertakings	**–**	–	**9**	9
Corporation tax	**440**	41	**–**	–
Other taxation and social security	**575**	390	**–**	–
Other creditors	**39**	34	**–**	–
Accruals and deferred income	**779**	361	**–**	–
	2,578	1,199	**9**	9

15. CREDITORS: Amounts falling due after more than one year

	Group 2006	Group 2005 *(restated)*	Company 2006	Company 2005
	£000	£000	**£000**	£000
Shares classed as financial liabilities	**388**	388	**–**	–

16. PENSIONS

The group operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the group to the schemes and amounted to £439,000 (2005 - £524,000).

Outstanding contributions at the end of the financial year amounted to £15,000 (2005 - £11,000).

17. COMMITMENTS UNDER OPERATING LEASES

At 30 June 2006 the group had annual commitments under non-cancellable operating leases as set out below.

Group	**2006**		2005	
	Land and buildings	**Other items**	Land and Buildings *(restated)*	Other items
	£000	**£000**	£000	£000
Operating leases which expire:				
Within 1 year	**82**	**-**	-	2
Within 2 to 5 years	**-**	**-**	82	-
	82	**-**	82	2

18. CONTINGENCIES

A contingent liability exists of £109,819 in respect of potential National Insurance contributions arising on contributions made by the company into a Funded Unapproved Retirement Benefit Scheme.

A further contingent liability exists in respect of accumulated interest to 30 June 2006 on the primary contingent liability.

In addition, further contributions of £644,382 have been made to the Funded Unapproved Retirement Benefit Scheme which could give rise to an additional National Insurance contributions liability of £82,481.

The liabilities are contingent on the outcome of a test case being selected and successfully argued by Her Majesty's Revenue and Customs.

The group has taken appropriate advice and consider that the outcome will be favourable and accordingly, no provision has been made in the financial statements.

19. RELATED PARTY TRANSACTIONS

The ultimate controlling party is J J Harris.

Included in the contributions made during the year to Smart421 Limited's Funded Unapproved Retirement Benefit Scheme were investments transferred at market value totalling £275,000 (2005 - £367,000).

At the year end, the group was owed £48,000 by SmartIntegrator Technology Limited (2005 - £30,000).

The group has a liability in respect of the 387,500 Deferred Ordinary shares of £1 each issued by Smart421 Limited that are owned by Seachange Systems Limited, a company controlled by J J Harris.

20. SHARE CAPITAL

Authorised share capital:

	2006	2005 *(restated)*
	£000	£000
40,000,000 Ordinary shares of £0.10 each	**4,000**	4,000

Allotted and called up:

	2006		2005	
	No	**£000**	No	£000
Ordinary shares of £0.10 each	**20,000,010**	**2,000**	20,000,010	2,000
Equity shares				
Ordinary shares of £0.10 each	**20,000,010**	**2,000**	20,000,010	2,000

20. SHARE CAPITAL *(continued)*

Under the approved company share option plan, employees held options at 30 June 2006 of 84,500 (2005 - 84,500) unissued ordinary shares. These are exercisable at a price of 11 pence per share from 8 June 2006 and expire on 19 June 2012.

Under the approved Enterprise Management Incentive scheme (EMI), employees held options at 30 June 2006 of 4,623,500 (2005 - 2,807,500) unissued ordinary shares as follows:

567,000 granted on 17/11/2003 - exercise price 11p
1,074,500 granted on 08/03/2004 - exercise price 11p
953,000 granted on 23/09/2004 - exercise price 13p
859,000 granted on 25/07/2005 - exercise price 13p
1,170,000 granted on 24/01/2006 - exercise price 14p

Employees also held options at 30 June 2006 of 110,000 (2005 - 25,000) unissued ordinary shares as follows:

25,000 granted on 23/09/2004 - exercise price 13p
25,000 granted on 25/07/2005 - exercise price 13p
60,000 granted on 24/01/2006 - exercise price 14p

These options have the same rights as those under the EMI, however, they were not granted under the approved scheme.

A third of the options may be exercised at the later of the listing date and the first anniversary of the date of the grant, with the second third being exercisable a year later and the remainder a year after that.

The options expire after 10 years.

During the year, 2,251,000 (2005 - 1,329,000) options were granted and none were exercised.

21. RESERVES

Group	Other reserves £000	Profit and loss account £000
Balance brought forward	540	91
Profit for the year	–	1,026
Balance carried forward	540	1,117

21. RESERVES *(continued)*

Company

	Profit and loss account £000
Balance brought forward	26
Profit for the year	15
Balance carried forward	41

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £000	2005 *(restated)* £000
Profit for the financial year	1,026	156
Opening shareholders' funds	2,631	2,475
Closing shareholders' funds	3,657	2,631

23. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006 £000	2005 *(restated)* £000
Operating profit	1,400	135
Depreciation	98	75
Loss on disposal of fixed assets	–	7
Decrease in stocks	–	2
Increase in debtors	(745)	(155)
Increase/(decrease) in creditors	980	(12)
Net cash inflow from operating activities	1,733	52

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	2006	2005 *(restated)*
	£000	£000
Increase in cash in the period	**496**	861
Cash used to increase/decrease liquid resources	**1,107**	(1,095)
	1,603	(234)
Change in net funds	**1,603**	(234)
Net funds at 1 July 2005	**1,408**	1,642
Net funds at 30 June 2006	**3,011**	1,408

25. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 Jul 2005	**Cash flows**	**At 30 Jun 2006**
	£000	**£000**	**£000**
Net cash:			
Cash in hand and at bank	**1,499**	**1,396**	**2,895**
Less: deposits treated as liquid resources	**–**	**(900)**	**(900)**
	1,499	**496**	**1,995**
Liquid resources:			
Deposits included in cash	**–**	**900**	**900**
Current asset investments	**297**	**207**	**504**
	297	**1,107**	**1,404**
Debt:			
Debt due after 1 year	**(388)**	**–**	**(388)**
Net funds	**1,408**	**1,603**	**3,011**