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Retec Digital PLC
Annual Report and Financial Statements
for the year ended 30 June 2009



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Company information

Directors	Sir Brian Ivory (<i>Chairman</i>) J Cole (<i>Chief Executive Officer</i>) G R Derby (<i>Chief Operating Officer</i>) I Deste (<i>Non-Executive</i>) B J Ellis (<i>Non-Executive</i>) C R H McKay (<i>Finance Director</i>)
Secretary	V J Hawrych
Registered office	Alma Park Woodway Lane Claybrooke Parva Lutterworth Leicestershire LE17 5BH
Registered number	04015454
Auditors	haysmacintyre Fairfax House 15 Fulwood Place London WC1V 6AY
Solicitors	Edwin Coe LLP 2 Stone Buildings Lincoln's Inn London WC2A 3TH
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0GA
Bankers	National Westminster Bank plc 25 High Street Lutterworth Leicestershire LE17 4AX

Chairman's statement

This year has been extremely challenging for the Company in light of the economic downturn. This has led to restrictions on spending by our customers, particularly in new and innovative areas such as the solutions offered by Retec, and a slowdown in the time taken between enquiry and order placement.

It has also been a year of transition with substantial changes to the mix of turnover and overheads through acquisition. As a result we enter 2009/10 on a more broadly based and secure footing.

Encouragingly, since the start of the calendar year 2009 we have seen an increase in the number of sales enquiries which we have received, and more recently these converting into sales.

Results for the year ended 30 June 2009	2009 £'000	2008 £'000
Turnover	5,885	6,205
Gross profit	1,675	1,834
Operating (loss)/profit before amortisation of intangibles, development costs and share based payments	(826)	22
Loss before tax	(1,789)	(339)

Cash

We raised £1,613,000 net of expenses during the year from a combination of the issue of Convertible Loan Stock and Secured Loans from September 2008 through to June 2009. Of the funds raised, £985,000 was applied in the acquisition of ODD London Limited and the contract to supply photo booths to Wm Morrison Supermarkets Plc, with the remainder to working capital requirements.

Cash balances at 30 June 2009 stood at £410,000 (2008: £459,000).

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

Operational review

Retec Digital PLC ("Retec") provides retailers with Guided Selling solutions designed to increase core sales, provide additional revenue opportunities, improve cost control and customer satisfaction.

The main focus of the year was in restructuring our skills to be more agile and flexible in the delivery of our services and solutions in the face of a rapidly slowing market. We encountered a number of disappointments with projects being deferred and in the run up to Christmas 2008 two major projects were very substantially delayed.



Co-op home delivery system



Chairman's statement continued



Tesco wine selector – Warrington



Asda games – Keighley

Chairman's statement continued

That said, we have made further inroads with some of our major customers, principally with Tesco. Here we have delivered our Wine Selector for trial in March 2009, installed our stock checker solution into six major Tesco Direct outlets plus one Superstore, and have a card issuance solution on trial for Clubcard. Each of these has a clear return on investment case.

Sainsbury's Entertainment continues to deliver impressive returns and we have been able to attract some non-category advertising into the channel in conjunction with Sainsbury's during the year. ASDA have this solution on trial for Games in three stores and are showing similar returns.

We received further orders from Argos for their roll out of Quick Pay units across their estate and some of these have been installed by Media 4 into the Republic of Ireland.

By bringing together Liquid Digital and Retec Interface, we won an order to deliver a shirt printing facility to Liverpool Football Club which has now been rolled out to all their merchandising stores. On the back of this, we received orders to deliver this into the new GIVE retail outlets which opened in Autumn 2009.



Wm Morrison photo booth – Ramsbottom

We bought for £542,000 a contract to supply photo booths into Wm Morrison Supermarkets Plc on 7 November 2008 from the Administrator of Consolidated Vending Plc and this has exceeded our expectations during the year. The assets acquired generated £1,737,000 of revenue in the 12 months to 31 October 2008. More recently the estate has been expanded from 232 locations to 270.



Chairman's statement continued

We entered a new market under the banner of In4Health during the year, and we have signed up 16 GP surgeries with our health information service for the next 12 months mostly in Wiltshire. This offer comprises the use of a kiosk and a broadcast screen to provide information to patients in the waiting area of the GP surgery. Our objective is to provide a channel for the Primary Care Trust and the GP that engages with the patient more effectively than other mediums currently in use.

University College Hospital in London have confirmed us as their partner of choice for a number of digital solutions across their sites and we look forward to reporting further progress on this soon.

Acquisitions

On 1 September 2008, we acquired ODD London Limited, for a mixture of cash and shares.



Sportswear promotion – Lacoste

ODD is a design-led communications agency whose client list includes Kickers, Kiss, New Look, Uniqlo, Lacoste, Zacapa and Westfield. It has a multi-disciplinary offering, which ranges from product design to fully integrated marketing campaigns.

Due to the nature of their work, we have already merged some of our creative activities with that of Liquid Digital, acquired in May 2008, so that our capacity to deliver projects is enhanced.

Post balance sheet events

We have renegotiated the terms of the Convertible Loan Stock during September to extend the repayment date from 31 December 2009 to 31 December 2011. The conversion price as part of this exercise has reduced to 1p per share from 2p but the interest rate remains at 8 per cent..

Board changes

At the end of the financial year, Bob Hayim stood down from the Board as a Non-Executive Director. Bob, who represented Charles Street Securities, had been with the Company since before the acquisition of Retec Interface and re-admission to AIM and I would like to thank him for his contribution over this period.

Subsequently we have been joined by Graeme Derby as Chief Operating Officer and Tim Heaton has stepped down at the same time. I am delighted to welcome Graeme who will strengthen our senior management team. Tim continues to work in the business as Managing Director of Retec Interface Limited.

Chairman's statement continued

Outlook

We enter 2009/10 having restructured the Group and consolidated our acquisitions successfully into our operations. Our cost base has been reduced substantially on an annual basis against a backdrop of declining revenues in 2009/10 for our core business of Retec Interface.

The new financial year has started in a profitable fashion. Orders are beginning to flow more readily and our expectation is that we will begin to repay some of the debts during the financial year.

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

Sir Brian Ivory

Chairman

23 November 2009



Directors' report

The Directors present their report together with the audited financial statements for the year ended 30 June 2009.

Principal activity

The Group's principal activity is the development and supply of innovative multi-media marketing solutions to the retail industry.

Results and dividends

The results of the Group for the year ended 30 June 2009 and the financial position at the year end are set out in the consolidated income statement and consolidated balance sheet on pages 12 and 13 respectively. No dividends will be distributed for the year ended 30 June 2009.

Directors' responsibilities statement

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS's) as adopted by the EU and have elected to prepare the parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent Company and of the profit or loss of the Company for that year. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, 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 will continue in business.

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

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.

Directors' report continued

Principal risks	The Group is exposed to risks of credit, funding and liquidity on an ongoing basis. The Group's risk management policies are designed to reduce these risks and to allow the Group to react quickly to any changes in those risks. The funding for the Group is provided by a mixture of equity, loan and working capital.
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.
Directors	The Directors who held office during the year and to date were as follows: Sir Brian Ivory J Cole G R Derby – appointed 4 November 2009 B J Ellis R Hayim – resigned 3 July 2009 T S Heaton – appointed 10 November 2008, resigned 4 November 2009 I Deste C R H McKay.
Charitable and political donations	The Company made charitable donations during the year of £800 (2008: £252) but no political donations (2008: £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 485 of the Companies Act 2006.

On behalf of the Board

V J Hawrych
Secretary

23 November 2009



Independent auditors' report

**To the Members of
Retec Digital PLC**

We have audited the financial statements of Retec Digital Plc for the year ended 30 June 2009 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated cash flow statement, the Consolidated statement of changes in shareholders' equity and the related notes. The financial reporting framework that has been applied in their preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent Company financial statements, applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with section 495 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an 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 explained more fully in the Directors' responsibilities statement set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit
of the financial
statements**

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

**Opinion on financial
statements**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 June 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Independent auditors' report continued

**Opinion on other
matter prescribed
by the Companies
Act 2006**

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

**Matters on which
we are required to
report by exception**

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

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

Ian Cliffe
(Senior statutory auditor)
for and on behalf of
haysmacintyre
Statutory Auditor

23 November 2009

Fairfax House
15 Fulwood Place
London WC1V 6AY



Consolidated income statement

for the year ended 30 June 2009

	Note	2009 £'000	2008 £'000
Turnover – Continuing		3,165	6,167
– Acquisitions		2,720	38
		<u>5,885</u>	<u>6,205</u>
Cost of sales – Continuing		(1,680)	(4,086)
– Acquisitions		(1,821)	(60)
– Amortisation of intangibles		(351)	(194)
– Development costs		(358)	(31)
		<u>(4,210)</u>	<u>(4,371)</u>
Gross profit		1,675	1,834
Administrative expenses		(3,206)	(2,191)
Amortisation of intangibles		(126)	(94)
Share based payments		(14)	(36)
Other income		—	154
		<u>—</u>	<u>154</u>
Operating (loss)/profit – Continuing	3	(1,913)	(327)
– Acquisitions		242	(6)
		<u>(1,671)</u>	<u>(333)</u>
Net interest payable	5 and 6	(118)	(6)
		<u>(1,789)</u>	<u>(339)</u>
Loss on ordinary activities before taxation		(1,789)	(339)
Taxation	7	(74)	51
		<u>(1,863)</u>	<u>(288)</u>

The notes on pages 16 to 32 are an integral part of these consolidated financial statements

Consolidated balance sheet

at 30 June 2009

Registered company number: 04015454

	Note	2009 £'000	2008 £'000
ASSETS			
Non-current assets			
Intangible assets	9	3,484	3,233
Plant and equipment	10	164	161
Deferred tax	7	326	478
		<u>3,974</u>	<u>3,872</u>
Current assets			
Inventories	12	90	152
Trade and other receivables	13	1,161	587
Current tax assets		34	67
Cash and cash equivalents	14	410	512
		<u>1,695</u>	<u>1,318</u>
		<u>5,669</u>	<u>5,190</u>
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	15	1,994	1,969
Share premium account		3,917	3,854
Other reserve		28	—
Retained earnings		(4,003)	(2,159)
Total equity		<u>1,936</u>	<u>3,664</u>
LIABILITIES			
Non-current liabilities			
Financial liabilities	16	718	40
Current liabilities			
Financial liabilities	16	1,319	335
Trade and other payables	17	1,696	1,151
		<u>3,015</u>	<u>1,486</u>
Total liabilities		<u>3,733</u>	<u>1,526</u>
Total equity and liabilities		<u>5,669</u>	<u>5,190</u>

The financial statements were approved by the Board of Directors on 23 November 2009 and signed on its behalf by:

C R H McKay
Director

J Cole
Director

The notes on pages 16 to 32 are an integral part of these consolidated financial statements



Consolidated statement of changes in shareholders' equity

for the year ended 30 June 2009

	Share capital £'000	Share premium £'000	Other reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2007	1,801	3,230	—	(1,907)	3,124
Loss for the period	—	—	—	(288)	(288)
Share based payments	—	—	—	36	36
Share issue	168	677	—	—	845
Issue costs	—	(53)	—	—	(53)
Balance at 30 June 2008	1,969	3,854	—	(2,159)	3,664
Loss for the period	—	—	—	(1,863)	(1,863)
Equity component of convertible loan notes	—	—	28	—	28
Share based payments	—	—	—	19	19
Share issue	25	63	—	—	88
Balance at 30 June 2009	<u>1,994</u>	<u>3,917</u>	<u>28</u>	<u>(4,003)</u>	<u>1,936</u>

The notes on pages 16 to 32 are an integral part of these consolidated financial statements

Consolidated cash flow statement

for the year ended 30 June 2009

	2009 £'000	2008 £'000
Cash flows from operating activities		
Loss for the period	(1,863)	(288)
<i>Adjustments for:</i>		
Tax charge/(credit)	74	(51)
Net interest payable	118	6
Depreciation and amortisation	588	1,398
Development costs written off	358	—
Other income	—	(154)
Share option charge	14	36
Loss on disposal of fixed assets	3	—
Decrease/(increase) in stock	62	(21)
(Increase)/decrease in trade and other receivables	(42)	492
Decrease in trade and other payables	(18)	(1,217)
Cash (outflow)/inflow from operations	(706)	201
Tax refunded	65	28
Net cash (outflow)/inflow from operating activities	(641)	229
Cash flows from investing activities		
Acquisition of subsidiary (gross of cash/overdraft acquired)	(890)	(192)
Purchases of property, plant and equipment	(72)	(122)
Purchases of intangible assets	(80)	(348)
Interest received	3	25
Interest paid	(79)	(31)
Net cash used in investing activities	(1,118)	(668)
Cash flows from financing activities		
Issue of shares (net of issue costs)	—	692
Proceeds from borrowings	1,748	100
Finance lease repayments	(38)	(938)
Net cash used in financing activities	1,710	(146)
Net (decrease)/increase in cash and cash equivalents	(49)	(585)
Cash and cash equivalents at beginning of year	459	1,044
Cash and cash equivalents at end of year (note 14)	410	459

The notes on pages 16 to 32 are an integral part of these consolidated financial statements



Notes to the consolidated financial statements

for the year ended 30 June 2009

I. Accounting policies

Basis of preparation

These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective as at the time of preparing these statements. The policies set out below have been consistently applied to all the years presented.

Consolidated accounts

The consolidated accounts of the Group incorporate the assets and liabilities of the Company and its subsidiary undertakings (all of whose financial statements have been made up to 30 June 2009) and the results for the period when they were part of the Group. Results of the subsidiary companies acquired during the year are included from the date of acquisition.

Revenue recognition

Revenue comprises the fair value of the sale of goods and services, net of value-added tax, rebates and discounts. Revenue is recognised when a right to consideration has been obtained through performance and reflects activity on a project.

Inventories

Inventories are stated at the lower of cost incurred in bringing each product to its present location and condition and net realisable value.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Segmental reporting

The Group has the separately identifiable business segments of Digital solutions, Design and creative and Central overheads for which an analysis has been provided within the notes to these financial statements.

Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

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.

Deferred tax is measured at the tax rates which apply at the balance sheet date.

Notes to the consolidated financial statements continued

for the year ended 30 June 2009

I. Accounting policies

continued

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold improvements	–	over the lease term
Furniture and office equipment	–	over 2 to 3 years
Kiosks	–	over 3 years
Computer equipment	–	over 2 to 3 years
Motor vehicles	–	over 3 years

Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have a finite useful life and that have been capitalised are amortised from the commencement of the commercial production of the product on a straight line basis over a period of 24 months.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and short-term deposits with an original maturity of three months or less.

Operating leases

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to profit and loss account as incurred.

Current tax

Current tax assets and liabilities are measured at the amount expected to be recovered from, or paid to, the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Employee share options

The Company awards senior employees bonuses in the form of share options, from time to time, on a discretionary basis. The options are normally subject to vesting conditions and, where it is considered likely that the conditions will be met, their fair value is recognised as an employee benefits expense with a corresponding increase in other reserve equity over the vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.



Notes to the consolidated financial statements continued

for the year ended 30 June 2009

I. Accounting policies *continued*

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives.

The corresponding lease or hire purchase obligation is capitalised in the balance sheet as a liability.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to the income statement on a straight line basis over the lease term.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination, such as professional fees paid to accountants, legal advisers, valuers and other consultants to effect the combination. General administrative costs and other costs that cannot be directly attributed to the particular combination being accounted for are not included in the cost of the combination and are recognised as an expense when incurred.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS3 'Business Combinations' are recognised at their fair values at the acquisition dates.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the costs of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Any goodwill arising is reviewed annually for impairment and if such an impairment has occurred then this is recognised immediately in the year that it occurs.

Intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be reliably measured.

The significant intangible assets acquired as part of the acquisitions of Retec Interface Limited, Media 4 (UK) Limited, Liquid Digital Limited and ODD London Limited are the brand of "Retec", the customer contracts and relationships, and technology related assets for software and databases. These assets are amortised over their useful economic lives. Amortisation is recognised in cost of sales and overheads in the income statement.

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstance indicate that the carrying value may not be recoverable.

Notes to the consolidated financial statements continued

for the year ended 30 June 2009

1. Accounting policies

continued

Compound financial instruments

Compound financial instruments comprise of both liability and equity components. At issue date, the fair value of the liability component is estimated by discounting its future cash flows at an interest rate that would have been payable on a similar debt instrument without any equity conversion option. The liability component is accounted for as a financial liability.

The difference between the net issue proceeds and the liability component, at the time of issue, is the residual of equity component, which is accounted for as an equity instrument.

The interest expense on the liability component is calculated by applying the effective interest rate for the liability component of the instrument. The difference between any repayments and the interest expense is deducted from the carrying amount of the liability.

2. Business segment analysis

	Digital solutions £'000	Design and creative £'000	Central overheads £'000	Total £'000
Year ended 30 June 2009:				
Revenue				
External sales	4,395	1,490	—	5,885
Loss				
Segment operating (loss)/profit	(1,086)	28	(613)	(1,671)
Net finance costs				(118)
Loss before taxation				(1,789)
At 30 June 2009:				
Assets and liabilities				
Segment assets	4,650	901	118	5,669
Segment liabilities	(2,698)	(821)	(214)	(3,733)
Net assets	1,952	80	(96)	1,936

Substantially all of the turnover above is derived from operations in the United Kingdom and therefore no secondary segmentation is provided.

In the year ended 30 June 2008 all of the Group's activities fell under Digital solutions.



Notes to the consolidated financial statements continued

for the year ended 30 June 2009

3. Operating loss		2009	2008
		£'000	£'000
	This is stated after charging:		
	Depreciation of tangible fixed assets	111	1,079
	Amortisation of intangibles arising from business combinations	477	288
	Development costs capitalised in the year	(80)	(348)
	Development costs written off	358	31
	Operating lease rentals	122	118
	Employee share option charge	14	36
	Auditors' remuneration		
	– audit fees	8	8
	– auditing of accounts of associates of the company pursuant to legislation	23	15
	– other services pursuant to legislation	—	7
	– other services relating to taxation	6	6
	– services relating to corporate finance transactions	6	15
		<u> </u>	<u> </u>
4. Employee benefit expense (including Directors)		2009	2008
		£'000	£'000
	Wages, salaries, pensions, fees and profit share	2,251	1,972
	Social security costs	242	214
	Share options	12	36
		<u> </u>	<u> </u>
		<u>2,505</u>	<u>2,222</u>
	The average number of persons (including Directors) employed by the Group during the year was as follows:		
		Number	Number
	Sales and marketing	9	7
	Operations	23	28
	Office and administration	20	13
		<u> </u>	<u> </u>
		<u>52</u>	<u>48</u>
	Directors' compensation	£'000	£'000
	Salaries and short-term employee benefits	210	347
	Share options	14	18
		<u> </u>	<u> </u>
		<u>224</u>	<u>365</u>
	The total emoluments received by the highest paid Director was £131,000 (2008: £123,000).		
5. Bank interest receivable and similar income		2009	2008
		£'000	£'000
	Bank interest	3	25
		<u> </u>	<u> </u>

Notes to the consolidated financial statements continued

for the year ended 30 June 2009

6. Interest payable and similar charges	2009 £'000	2008 £'000
Bank interest	5	7
Finance charge on finance leases and hire purchase contracts	5	6
Interest payable on loans	111	18
	<u>121</u>	<u>31</u>
7. Taxation	2009 £'000	2008 £'000
(a) The taxation charge/(credit) comprises:		
Corporation tax credit	(34)	(46)
Adjustment in prior year	—	5
Current tax	(34)	(41)
Deferred tax	108	(10)
	<u>74</u>	<u>(51)</u>
(b) The tax assessed in the year is different from the standard rate of corporation tax in the UK of 28 per cent. (2008: 28 per cent.). The differences are explained below:		
	2009 £'000	2008 £'000
Loss on ordinary activities before tax	<u>(1,789)</u>	<u>(339)</u>
Loss on ordinary activities before tax multiplied by the standard companies' rate of tax in the UK of 28 per cent. (2008: 28 per cent.)	(501)	(95)
Effects of:		
Depreciation more than capital allowances	7	—
Expenditure not deductible for tax purposes	216	35
Development expenditure	(22)	(35)
Effect of lower rate on research and development tax credit	25	35
Share option charge	9	10
Utilisation of tax losses	—	(6)
Losses carried forward	196	10
Losses carried back	23	—
Other timing differences	13	—
Adjustments to prior periods	—	5
Current tax	<u>(34)</u>	<u>(41)</u>



Notes to the consolidated financial statements continued

for the year ended 30 June 2009

7. Taxation *continued*

(c) Factors which may affect future tax charges
Retec Digital PLC has Group tax equivalent losses of £1,875,000 (2008: £1,683,000), which may be utilised against future tax liabilities.

(d) Deferred tax
The deferred tax included in the balance sheet is as follows:

	2009 £'000	2008 £'000
Deferred tax asset		
Losses carried forward	494	805
Deferred tax on fair value adjustments	(140)	(221)
Deferred tax on development expenditure	(28)	(106)
	<u>326</u>	<u>478</u>

The deferred tax asset is recognised as the Group's projections show that Retec Digital PLC will generate sufficient taxable profit over the next few years to utilise the tax losses available.

8. Loss attributable to Retec Digital PLC

The loss for the financial year dealt with in the financial statements of the parent Company, Retec Digital PLC, was £344,000 (2008: £4,000). As permitted by section 408 of the Companies Act 2006, no separate profit and loss account is presented in respect of the parent Company.

Notes to the consolidated financial statements continued

for the year ended 30 June 2009

9. Intangible assets

	Development costs £'000	Potential order book £'000	Intellectual property £'000	Goodwill £'000	Total £'000
Cost					
At 1 July 2007	62	757	522	1,881	3,222
Acquisition of subsidiaries	—	102	98	188	388
Additions	348	—	—	—	348
At 1 July 2008	410	859	620	2,069	3,958
Acquisition of subsidiaries	—	157	—	307	464
Additions	80	450	—	92	622
At 30 June 2009	<u>490</u>	<u>1,466</u>	<u>620</u>	<u>2,468</u>	<u>5,044</u>
Amortisation and impairment					
At 1 July 2007	—	(258)	(148)	—	(406)
Amortisation during the year	(31)	(194)	(94)	—	(319)
At 1 July 2008	(31)	(452)	(242)	—	(725)
Amortisation during the year	(358)	(351)	(126)	—	(835)
At 30 June 2009	<u>(389)</u>	<u>(803)</u>	<u>(368)</u>	<u>—</u>	<u>(1,560)</u>
Net book value at 30 June 2009	<u>101</u>	<u>663</u>	<u>252</u>	<u>2,468</u>	<u>3,484</u>
Net book value at 30 June 2008	<u>379</u>	<u>406</u>	<u>379</u>	<u>2,069</u>	<u>3,233</u>

All amortisation charges in the year have been charged through costs of sales and overheads.

Development expenditure capitalised relates to the development of new Guided Selling solutions used by the business. This will be amortised over the useful life of contracts that then use this development and in any event no longer than 36 months.

The potential order book relates to customer relationships and contracts in place at the date of the acquisition of Retec Interface Limited, Media 4 (UK) Limited, Liquid Digital Limited, ODD London Limited, and the Wm Morrison Supermarkets Plc contract for photo booths. In the case of the potential order books, these are written off in a year given the short term nature of the orders in hand. Customer contracts are being amortised over the length of those contracts which is typically between three and ten years.

Intellectual property relates to brands, software and database assets held by Retec Interface Limited and Liquid Digital Limited. These are continually refreshed by the business as needs change and requirements from customers are added to. The database has been fully amortised. Software is being amortised over a period of up to five years.



Notes to the consolidated financial statements continued

for the year ended 30 June 2009

- 9. Intangible assets** *continued* Goodwill has been allocated to the Retec Interface Limited, Media 4 (UK) Limited, Liquid Digital Limited and ODD London Limited cash generating units for impairment testing purposes. The recoverable amount has been determined based on a value in use calculation using risk-adjusted cash flow projections based on financial budgets prepared by the Group. The key assumptions used in the value in use calculation are:

Discount rates

The discount rate applied to the cash flow projections is 20.32 per cent. for Retec Interface Limited, 23.67 per cent. for Media 4 (UK) Limited, 16.50 per cent. for Liquid Digital Limited and 25.81 per cent. for ODD London Limited. This is the Group's weighted average cost of capital adjusted to reflect a market assessment of specific risks associated with the segment cash flows.

Period over which projected cash flows are based on approved financial budgets

The period over which cash flows are projected based on financial budgets approved by the Board is one year.

Growth rate used to extrapolate cash flows beyond the budget period

The growth rate used to extrapolate cash flow projections beyond the budget period is 2.00 per cent.

Component elements of goodwill

For the purposes of the adoption of IFRS3, the separately identifiable elements of goodwill comprise the assembled workforce of Retec Interface Limited, Media 4 (UK) Limited, Liquid Digital Limited and ODD London Limited.

The assembled workforces combined have been ascribed a value of £598,000 being the cost to recreate the same workforce and make them as productive as the current employees of the Group. At the date of these accounts there has been no impairment of this workforce.

The deferred tax asset of £326,000 (note 7) takes into account the projected trading of the Group over the next four years.

Sensitivity

Management believe that it is unlikely that any reasonable possible change in the key assumptions would cause the carrying value of any of the cash generating units to exceed its recoverable amount.

Notes to the consolidated financial statements continued

for the year ended 30 June 2009

10. Property, plant and equipment

	Leasehold improvements £'000	Furniture, office and computer equipment £'000	Motor vehicles £'000	Kiosks £'000	Total £'000
Cost					
At 1 July 2007	8	194	145	2,441	2,788
On acquisition	—	23	—	—	23
Additions	40	41	35	549	665
Disposals	—	—	(32)	(2,990)	(3,022)
At 30 June 2008	48	258	148	—	454
On acquisition	—	17	—	—	17
Additions	2	58	38	12	110
Disposals	—	(4)	(4)	—	(8)
At 30 June 2009	50	329	182	12	573
Depreciation					
At 1 July 2007	3	132	65	625	825
On acquisition	—	15	—	—	15
Charge for the year	5	52	47	975	1,079
Disposals	—	—	(26)	(1,600)	(1,626)
At 30 June 2008	8	199	86	—	293
On acquisition	—	10	—	—	10
Charge for the year	17	54	40	—	111
Disposals	—	(2)	(3)	—	(5)
At 30 June 2009	25	261	123	—	409
Net book value					
At 30 June 2009	25	68	59	12	164
At 30 June 2008	40	59	62	—	161

Included in the totals for fixed assets are the following assets held under finance leases and hire purchase contracts:

	Motor vehicles	
	2009 £'000	2008 £'000
Net book value	59	57



Notes to the consolidated financial statements continued

for the year ended 30 June 2009

11. Business combinations

- a) In September 2009, the Company acquired 100 per cent. of the Ordinary share capital of ODD London Limited, for a total consideration of £488,000, satisfied by the issue of 5,000,000 Ordinary Shares, £390,000 in cash, and costs of £10,000.

Analysis of the acquisition of ODD London Limited:

Net assets at date of acquisition

	Book value £'000	Fair value adjustments £'000	Fair value to Group £'000
Intangible assets	—	157	157
Property, plant and equipment	7	—	7
Receivables	532	—	532
Cash at bank	51	—	51
Liabilities	(522)	—	(522)
Deferred tax liability	—	(44)	(44)
Net assets on acquisition	<u>68</u>	<u>113</u>	181
Goodwill arising on acquisition			<u>307</u>
			<u>488</u>
Discharged by:			
Cash			390
Issue of shares			88
Deal costs			10
			<u>488</u>

In the year ODD London Limited contributed a profit of £32,000 to the Group.

Included in the £307,000 of goodwill recognised above are certain intangible assets that cannot be individually separated and reliably measured at the date of acquisition as they relate to the future trading performance of the business which is dependent on a large number of factors.

£157,000 of intangible assets was separated from goodwill as part of this business combination and relate to the order book, customer contracts and relationships. The fair value of these intangibles was determined by calculating the net present value of future cash flows using a discount rate of 25.81 per cent.

Notes to the consolidated financial statements continued

for the year ended 30 June 2009

11. Business combinations *continued*

- b) On 10 November 2008, the Group acquired the contract to supply photo booths to Wm Morrison Supermarkets Plc, from the administrators of the Consolidated Vending Plc group. The Group paid a consideration of £450,000 in cash for the contract and the trading assets associated with it and acquisition costs of £92,000.

The net assets acquired are detailed in the table below:

	Book value £'000	Fair value £'000	Total £'000
Wm Morrison contract	—	450	450
Net assets acquired	—	450	450
Goodwill on acquisition			92
			<u>542</u>

12. Inventories

	2009 £'000	2008 £'000
Goods for resale	90	152

13. Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	721	420
Other debtors	239	32
Prepayments and accrued income	201	135
	<u>1,161</u>	<u>587</u>

Concentrations of credit risk with respect to trade receivables are limited because the Group's customer base is large and unrelated. Due to this, management believe there is no further credit risk provision required in excess of normal provision for doubtful receivables.

14. Cash and cash equivalent

	2009 £'000	2008 £'000
Cash at bank	410	215
Short-term bank deposits	—	297
	410	512
Bank overdrafts	—	(53)
	<u>410</u>	<u>459</u>



Notes to the consolidated financial statements continued

for the year ended 30 June 2009

15. Called up share capital	2009 £	2008 £
Authorised:		
400,000,000 Ordinary Shares of 0.5p each	2,000,000	2,000,000
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>6,501,000</u>	<u>6,501,000</u>
Issued:		
164,324,664 (2008: 159,324,664) Ordinary Shares of 0.5p each	821,623	796,623
36,250 Deferred Shares of 1p each	363	363
23,440,062,357 Deferred "B" Shares of 0.005p each	1,172,003	1,172,003
	<u>1,993,989</u>	<u>1,968,989</u>

During the year 5,000,000 Ordinary Shares of 0.5p each were issued on the acquisition of ODD London Limited, giving the Company total issued Ordinary Shares of 164,324,664.

Share options are granted to Directors and employees. Options are generally conditional on the employee completing a specific length of service (the vesting period). The majority of options are exercisable from the end of the vesting period and lapse after ten years after the grant date. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The majority of options are valued using the Black-Scholes option pricing model and no performance conditions were included in the fair value calculations. The risk free rate was 2 per cent. The expected volatility is based on historical volatility over the last four years from the date of grant and is estimated to be 25 per cent. for warrants issued during the year.

At 30 June 2009, the Company had the following warrants in issue:

At 1 July 2008	Issued/ (exercised/ lapsed)	At 30 June 2009	Exercise price (pence)	Last exercise date
2,000,000	—	2,000,000	10	31/3/10
2,180,000	3,292,031	5,472,031	2	30/9/10
—	20,000,000	20,000,000	1	20/6/14
<u>4,180,000</u>	<u>23,292,031</u>	<u>27,472,031</u>		

Notes to the consolidated financial statements continued

for the year ended 30 June 2009

15. Called up share capital

continued

At 30 June 2009, the Company had the following share options in issue:

Issued/ At 1 July 2008	Exercise (exercised/ lapsed)	At 30 June 2009	price (pence)	Last exercise date
1,381,858	—	1,381,858	5	31/12/11
60,000	—	60,000	125	18/06/12
7,153,350	—	7,153,350	2	13/10/10
2,850,000	(600,000)	2,250,000	3.75	14/09/11
5,772,664	—	5,772,664	3.75	29/09/11
1,112,500	(162,500)	950,000	4	1/03/12
<u>18,330,372</u>	<u>(762,500)</u>	<u>17,567,872</u>		

16. Financial liabilities

	2009 £'000	2008 £'000
Non current		
Secured commercial loan	400	—
Commercial loans	225	—
Convertible loan stock	58	—
Finance leases	35	40
	<u>718</u>	<u>40</u>
Current		
Secured commercial loan	200	—
Commercial loans	248	250
Convertible loan stock	834	—
Bank overdraft	—	53
Finance leases (see note 19)	37	32
	<u>1,319</u>	<u>335</u>

On acquisition of Liquid Digital Limited, the Company issued a commercial loan of £100,000 due to a former shareholder of Liquid, which is repayable on 31 December 2009. The loan carries an interest rate of 9 per cent.

The consideration to acquire the contract to supply photo booths to Wm Morrison Supermarkets Plc on 7 November 2008 was satisfied by the issue of a secured commercial loan of £400,000 and an unsecured commercial loan of £225,000. The secured loan bears an interest rate of 9 per cent. plus a redemption premium of 7.5 per cent. on the anniversary of the loan and is repayable on 31 December 2011. A further drawdown of £200,000 was made on 24 June 2009 under the same terms. Issue costs of £5,000 have been set off against the £600,000 loan and are being amortised over the term of the loan.



Notes to the consolidated financial statements continued

for the year ended 30 June 2009

16. Financial liabilities *continued*

The commercial loan of £225,000 is repayable on 31 October 2010 and carries an interest rate of 9 per cent.

On acquisition of ODD London Limited, the Company issued a convertible commercial loan of £360,000 due to the previous shareholders of ODD, which is repayable in instalments from 30 September 2009 to 31 August 2010. The loan carries an interest rate of 6 per cent. The loan is convertible into Ordinary shares at 97.5 per cent. of the market price at the date of conversion only if there is an offer made for the Company and on the balance of loan stock outstanding at the time of conversion. A redemption premium of 5 per cent. of the loan balance was payable on 30 April 2009 and a final redemption premium of 5 per cent. on 31 August 2010. The fair value of the liability component of this convertible loan stock amounted to £358,225 on initial recognition, using cash flows discounted at a rate of 12.5 per cent. based on the Group's borrowing rate.

Convertible unsecured loan stock of £450,000 was issued on 4 September 2008 and a further issue of £110,500 was made on 7 November 2009. The loan stock is repayable on 31 December 2009 and carries an interest rate of 8 per cent. with the right to convert into Ordinary shares in the Company at an exercise price of 2p per share. Subsequent to the year end this loan's repayment date was extended to 31 December 2011 and the exercise price reduced to 1p per share. Interest continues to accrue at the rate of 8 per cent. The fair value of the liability component of this convertible loan stock amounted to £534,420 on initial recognition, using cash flows discounted at a rate of 12.5 per cent. based on the Group's borrowing rate.

The values of the liability components and the equity conversion components of the convertible loan stock were determined at issuance of each loan stock.

17. Trade and other payables

	2009 £'000	2008 £'000
Amounts falling due within one year		
Trade payables	799	463
Social security and other taxes	284	411
Other payables	26	11
Accruals and deferred income	587	266
	<u>1,696</u>	<u>1,151</u>

18. Operating lease commitments

The Group leases five offices under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement during the year is disclosed in note 2.

Notes to the consolidated financial statements continued

for the year ended 30 June 2009

18. Operating lease commitments The future aggregate minimum lease payments under non-cancellable operating leases are as follows:
continued

	2009 £'000	2008 £'000
No later than one year	44	22
Between two and five years	55	95
In greater than five years	72	—
	<u>171</u>	<u>117</u>

19. Obligations under finance leases	Minimum lease payments		Obligations under finance leases	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Amounts due:				
Within one year	40	36	37	32
Between one and two years	22	30	22	22
Between two and three years	14	13	13	18
Less: future finance charges	(4)	(7)	—	—
	<u>72</u>	<u>72</u>	<u>72</u>	<u>72</u>

20. Financial instruments There are no significant concentrations of credit risk within the Group. The maximum credit risk exposure relating to financial assets is represented by the carrying value of receivables as at the balance sheet date.

The Group's financial risk management policies are designed to reduce the risk of funding, liquidity and interest risk exposure.

The Group's financial instruments comprise commercial loans, cash at bank and other items including trade receivables and trade payables that arise directly from its operations. The Group does not engage in instruments of a speculative nature. There were no derivatives or hedging instruments in place during the current or previous year. An analysis of cash and cash equivalents is given in note 14 and of financial liabilities in note 16.

The Group finances itself through retained earnings, commercial loans, overdraft facilities and finance and operating leases. The Group manages its liquid resources so as to obtain the best available rates of return on cash investments, whilst retaining access to those resources.

21. Contingent liabilities and other liabilities The Group has no contingent or other liabilities, other than those already disclosed in the financial statements at the year end.



Notes to the consolidated financial statements continued

for the year ended 30 June 2009

22. Post balance sheet events

On 28 September 2009, the terms of the Convertible unsecured loan stock were amended to extend the repayment date to 31 December 2011 and the conversion at the option of the holder, into Ordinary Shares of the Company changed to an exercise price of 1p.

Any Ordinary Shares held as a result of a conversion will rank *pari passu* with the existing Ordinary Shares.

23. Related party transactions

During the year, the Group purchased services amounting to £52,000 (2008: £192,000) from Benchmark Limited, of which the son of Mr J Cole is a director and shareholder. At the year end, an amount of £25,000 (2008: £Nil) was owing to the company.

During the year the Company was charged £18,000 (2008: £18,000) by The Waybury Partnership, of which Mr B Ellis is a partner, for the services of Mr B Ellis. At the year end, an amount of £4,000 (2008: £2,000) was owing to the partnership. This amount has been included in trade creditors.

The Company was charged £9,000 by CSS Capital Partners and RH & Associates, of which R Hayim is a partner, for the services of R Hayim (2008: £18,000). There are no amounts owed to CSS Capital Partners and RH & Associates (2008: £ Nil).

During the year the Company was charged £18,000 (2008: £18,000) by Enitar Limited, a company of which Sir Brian Ivory is a director, for the services of Sir Brian Ivory. At the year end, an amount of £4,000 (2008: £6,000) was owing to Enitar Limited. This amount has been included in trade creditors.

Included within financial liabilities due within one year are convertible loans issued to the following Directors:

	£
Sir Brian Ivory	20,000
J Cole	25,000
I Deste	5,000
B J Ellis	15,000
C R H McKay	20,000

Interest has been paid and is accruing on these loans as disclosed under note 16 financial liabilities.

Parent Company balance sheet at 30 June 2009

Registered company number: 04015454

	Note	2009 £'000	2008 £'000
Fixed assets			
Investments	2	3,396	2,908
Tangible assets	3	—	2
		<u>3,396</u>	<u>2,910</u>
Current assets			
Debtors	4	2,852	1,845
Cash at bank and in hand		38	199
		<u>2,890</u>	<u>2,044</u>
Creditors: amounts falling due within one year	5	<u>(1,528)</u>	<u>(445)</u>
Net current assets		1,362	1,599
Creditors: amounts falling due after one year	6	<u>(458)</u>	<u>—</u>
		<u><u>4,300</u></u>	<u><u>4,509</u></u>
Capital and reserves			
Called up share capital	7	1,994	1,969
Share premium account	7	3,917	3,854
Other reserve	7	28	—
Retained earnings	7	<u>(1,639)</u>	<u>(1,314)</u>
	8	<u><u>4,300</u></u>	<u><u>4,509</u></u>

The financial statements were approved by the Board of Directors on 23 November 2009 and signed on its behalf by:

C R H McKay
Director

J Cole
Director

The notes on pages 34 to 37 are an integral part of these Company financial statements



Notes to the Company financial statements

for the year ended 30 June 2009

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable United Kingdom Accounting Standards and under the historical cost accounting rules.

The Company is included in the consolidated financial statements of Retec Digital PLC.

The Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group.

In accordance with FRS 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement.

As permitted by section 408 of the Companies Act 2006, the profit and loss account of the Company has not been included as part of these financial statements. The Company's loss for the year after taxation was £344,000 (2008: loss of £4,000).

Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for diminution in value.

Share based payments

FRS 20 "Share Based Payments" requires that where shares or rights to shares are granted to third parties, including employees, a charge should be recognised in the profit and loss account based on the fair value of the shares at the date of grant of shares or right to shares is made, with a corresponding increase in reserves, over the vesting period.

2. Investments

Fixed asset investments are stated at cost less provision for impairment.

	2009 £'000	2008 £'000
Investment in subsidiary undertakings		
At 1 July	2,908	2,597
Additions	488	311
At 30 June	<u>3,396</u>	<u>2,908</u>

At 30 June 2009, the Company has five fully owned operating subsidiaries, Retec Interface Limited, Media 4 (UK) Limited, Media 4 Self Service Limited, Liquid Digital Limited and ODD London Limited. Retec Interface Limited and Liquid Digital Limited are principally engaged in the development and supply of innovative marketing solutions, Media 4 (UK) Limited and Media 4 Self Service Limited are engaged in the integration, installation and service of the equipment including the contract to supply photo booths to Wm Morrison Supermarkets Plc, and ODD London Limited is a design led communications agency.

Notes to the Company financial statements continued

for the year ended 30 June 2009

2. Investments
continued In September 2008, the Company acquired 100 per cent. of the Ordinary share capital of ODD London Limited, for a total consideration of £488,000, satisfied by the issue of 5,000,000 Ordinary shares, £390,000 in cash, and costs of £10,000.

In November 2008, the Company formed Media 4 Self Service Limited to acquire the contract to supply photo booths to Wm Morrison Supermarkets Plc .

The Directors consider the investments to be worth at least cost.

3. Tangible fixed assets

**Furniture and office equipment
£'000**

Cost

At 1 July 2008 and 30 June 2009	5
Disposals	(5)
At 30 June 2009	<u>—</u>

Depreciation

At 1 July 2008	3
Disposals	(3)
At 30 June 2009	<u>—</u>

Net book value

At 30 June 2009	<u>—</u>
At 30 June 2008	<u><u>2</u></u>

**4. Debtors:
amounts falling
due within
one year**

	2009	2008
	£'000	£'000
Amounts due from subsidiary undertakings	2,778	1,789
Taxation and social security	42	35
Other debtors	17	3
Prepayments and accrued income	15	18
	<u>2,852</u>	<u>1,845</u>

Included within amounts due from subsidiary undertakings is a loan of £1,150,000 which attracts interest at 6 per cent. per annum and a loan of £450,000 which attracts interest at the rate of 9 per cent. per annum.



Notes to the Company financial statements continued

for the year ended 30 June 2009

5. Creditors:	2009	2008
amounts falling due within one year	£'000	£'000
Trade creditors	81	93
Commercial loans	448	250
Convertible loan stock	834	—
Taxation and social security	8	9
Other creditors	3	1
Accruals	122	92
Amount owed to subsidiary undertakings	32	—
	<u>1,528</u>	<u>445</u>

The Company has two commercial loans of £100,000 and £600,000. The loans attract interest at 9 per cent. per annum respectively, with the last of these loans attracting an annual premium of 7.5 per cent.. The first loan is unsecured and the second one is secured over the assets of the Company. The £100,000 is repayable on 31 December 2009 and the £600,000 loan is repayable on 31 December 2011.

Issue costs of £5,000 have been set off the £600,000 loan and are being amortised over the term of the loan.

The convertible loan stock of £360,000 is unsecured, carries interest at 6 per cent. per annum and is repayable in instalments from 30 September 2009 to 31 August 2010.

£560,500 of the convertible loan stock is unsecured and carries an interest rate of 8 per cent. with a repayment date of 31 December 2009. The fair value of the liability component of this convertible loan stock amounted to £534,420 on initial recognition, using cash flows discounted at a rate of 12.5 per cent. based on the Group's borrowing rate. Subsequent to the year end, the repayment date was amended to 31 December 2011 and the conversion price reduced from 2p to 1p at the option of the holder.

6. Creditors:	2009	2008
amounts falling due after one year	£'000	£'000
Commercial loans	400	—
Convertible loan stock	58	—
	<u>458</u>	<u>—</u>

Notes to the Company financial statements continued

for the year ended 30 June 2009

7. Capital and reserves	2009 £'000	2008 £'000
Share capital		
A 1 July	1,969	1,801
Share issues	25	168
At 30 June	<u>1,994</u>	<u>1,969</u>
Share premium		
A 1 July	3,854	3,231
Share issues	63	676
Issue costs	—	(53)
At 30 June	<u>3,917</u>	<u>3,854</u>
Other reserve		
A 1 July	—	—
Equity component of convertible loan stock	28	—
At 30 June	<u>28</u>	<u>—</u>
Profit and loss account		
A 1 July	(1,314)	(1,346)
Loss for the financial year	(344)	(4)
Share based payments	19	36
At 30 June	<u>(1,639)</u>	<u>(1,314)</u>
8. Reconciliation of movement in shareholders' funds	2009 £'000	2008 £'000
At 1 July	4,509	3,686
Loss for the financial year	(344)	(4)
Share issues	25	168
Share premium	63	676
Issue costs	—	(53)
Equity component of convertible loan stock	28	—
Share based payments	19	36
At 30 June	<u>4,300</u>	<u>4,509</u>
9. Ultimate controlling party	In the opinion of the Directors, the Company has no ultimate controlling party.	



Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Retec Digital PLC (the "Company") will be held at the offices of Edwin Coe LLP at 2 Stone Buildings, Lincoln's Inn, London WC2A 3TH on 15 December 2009 at 11.00 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 7 (inclusive), as ordinary resolutions and, in the case of Resolutions 8 and 9, as special resolutions:

ORDINARY RESOLUTIONS

- 1 That, the report of the Directors and the audited accounts of the Company for the year ended 30 June 2009 be received and adopted.
- 2 That, Graeme Derby, having been appointed by the Board on 4 November 2009, be re-elected as a Director of the Company.
- 3 That, Bryan Ellis, having retired by rotation, be re-elected as a Director of the Company.
- 4 That, Charles McKay, having retired by rotation, be re-elected as a Director of the Company.
- 5 That, haysmacintyre be re-appointed auditors of the Company, and that the Directors be authorised to determine the auditors' remuneration.
- 6 That, in accordance with section 551 of the Companies Act 2006 (the "2006 Act"), the Directors be specifically and unconditionally authorised to allot shares in the Company up to an aggregate nominal amount of £322,125 (representing the maximum amount of equity securities to be allotted on the conversion of the convertible unsecured loan stock constituted by an instrument dated 4 September 2008 (the "Stock")) provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the last day for conversion of the Stock, but in any event no later than the fifth anniversary of the date of the passing of this resolution.
- 7 That, in addition to the authority granted by resolution 6, in accordance with section 551 of the 2006 Act, the Directors be generally and unconditionally authorised to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company ("Rights") up to an aggregate nominal amount of £328,650 (representing approximately 40 per cent. of the ordinary issued share capital) provided that:
 - 7.1 this authority shall, unless renewed, varied or revoked by the Company, expire 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
 - 7.2 that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights to be granted and the Directors may allot shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

SPECIAL RESOLUTIONS

- 8 That, subject to the passing of resolution 6 and in accordance with section 570 of the 2006 Act, the Directors be specifically empowered to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by resolution 6, as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall expire with the authority granted by resolution 6 (unless renewed, varied or revoked by the Company prior to or on that date).
- 9 That, subject to the passing of resolution 7 and in accordance with section 570 of the 2006 Act, the Directors be generally empowered to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by resolution 7, as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall:
 - 9.1 be limited to:
 - (a) 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

Notice of Annual General Meeting continued

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

- (b) the allotment (other than under paragraph (a) above) of equity securities:
- (i) in the case of ordinary shares (as defined in section 560 of the 2006 Act), having a nominal amount; or
 - (ii) in the case of Rights, giving the right to subscribe for or convert into ordinary shares having a nominal amount

not exceeding in aggregate £205,406 (representing approximately 25 per cent. of the ordinary issued share capital); and

- 9.2 expire with the authority granted by resolution 7 (unless renewed, varied or revoked by the Company prior to or on that date) 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 the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired

BY ORDER OF THE BOARD

V J Hawrych
Company Secretary

23 November 2009

Registered Office:
Alma Park
Woodway Lane
Claybrooke Parva
Lutterworth
Leicestershire LE17 5BH

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.
- 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 notially certified copy of such authority) must be deposited at the Company's Registrars, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours prior to the time fixed for the meeting. Completion of the Form of Proxy will not preclude an ordinary shareholder from attending and voting in person (attendance in person will automatically terminate the proxy appointment).
- 3 To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RAI0 by not later than 48 hours prior to the time fixed for the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your Form of Proxy must be received by the Company's registrars no later than 48 hours prior to the time fixed for the meeting.
- 4 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.
- 5 In the case of a corporation the Form or 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.
- 6 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.
- 7 The following documents will be available for inspection during normal business hours at the Company's registered office and at the offices of Edwin Coe LLP from the date of this notice up until the date of the Annual General Meeting:
 - 7.1 the audited consolidated accounts of the Company for the financial period ended 30 June 2009; and
 - 7.2 the Register of Directors' interests in the capital of the Company and copies of the service contracts of the Directors of the Company.



RETEC DIGITAL PLC

For your notes

Form of Proxy

ANNUAL GENERAL MEETING

convened for 15 December 2009 at 11.00 am

I/We
(name in full in block capitals)

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

being a member/members of the Company hereby appoint (see note 4)

.....
or failing him, the Chairman of the Meeting to be my/our proxy and to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 15 December 2009 at 11.00 am and at any adjournment thereof. If you sign this form and return it without any specific directions your appointed proxy or proxies will vote or abstain at his/her discretion on the Resolution to be proposed as he/she will upon any other motion arising at the Meeting.

Please indicate in the box with an "X" if this Form of Proxy is one of multiple instructions being given (note 3)

I/we instruct the proxy to vote on the following Resolutions as follows:

	RESOLUTIONS	For	Against
1.	To adopt the annual accounts, Directors' report and auditors' report		
2.	To re-elect Graeme Derby as a Director		
3.	To re-elect Bryan Ellis as a Director		
4.	To re-elect Charles McKay as a Director		
5.	To re-appoint haysmacintyre as auditors		
6.	To give Directors specific authority to allot shares in respect of convertible loans		
7.	To give Directors general authority to allot shares		
8.	To waive statutory pre-emption in respect of resolution 6 (specific authority to allot)		
9.	To waive statutory pre-emption in respect of resolution 7 (general authority to allot)		

Signed or sealed (see notes 1 and 3) Dated2009

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, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by not later than 48 hours before the meeting.
- 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 your named proxy does not attend, the Chairman shall be entitled to vote as proxy. To appoint more than one proxy, attach a schedule listing the names and addresses (in block letters) of all of your proxies, the number of shares in respect of which each proxy is appointed (which, in aggregate, should not exceed the numbers of shares held by you) and indicating how you wish each proxy to vote or abstain from voting. If you wish to appoint the Chairman as one of your multiple proxies, simply write "the Chairman of the meeting".
- 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.
- Shares held in uncertified form (i.e. in CREST) may be voted through the CREST Proxy Voting Service in accordance with the procedures set out in the CREST manual.



3RD FOLD AND TUCK IN

Business Reply
Licence Number
RSBH-UXKS-LRBC



PXS
34 Beckenham Road
BECKENHAM
Kent
BR3 4BR

2ND FOLD

1ST FOLD

