

retec  digital

RETEC DIGITAL PLC
INTERIM REPORT AND
FINANCIAL STATEMENTS

for the six months ended 31 December 2007



Contents

	<i>Page</i>
Chairman's statement	2
Consolidated profit and loss account	5
Consolidated balance sheet	6
Consolidated statement of changes in shareholders' equity	7
Consolidated cash flow statement	8
Notes to the financial statements	10
Independent review report	14



Chairman's statement

I am pleased to be able to report on a record half year result for Retec. Retec has made further significant progress in developing its business during the period and is approaching profitability before the effects of amortisation are taken into account.

Financial review The results for the period are shown in summary below.

£'000	Six months ended	Restated	Percentage change
	31 December 2007 (Unaudited)	Six months ended 31 December 2006 (Unaudited)	
Turnover	3,544	1,332	+166
Gross profit	814	139	+485
Operating loss	(292)	(461)	-37
Loss after tax	(322)	(699)	-54
Earnings per share			
– Basic and fully diluted	(0.26)p	(0.67)p	-61

Turnover for the Group was £3,544,000 which compares with three and a half months in the prior year following the acquisition of Retec Interface Limited in September 2006. Gross profit for the Group was £814,000 (2006: £139,000) and the loss after taxation was £322,000 (2006: £699,000). This growth is mainly due to the continued roll-out of Entertainment Xtra and, via IBM UK Limited, work from Alliance Boots and Argos.

The basic loss per share per share was 0.26 pence (2006: 0.67 pence).

Cash flow has been maintained whilst this rapid growth has taken place with cash generated from operating activities of £597,000 (2006: £122,000). At 31 December 2007, Retec had cash balances of £1.04 million (2006: £0.82 million). Our balance sheet remains strong and we have been able to invest in new product development, and in sales and marketing efforts targeted towards our key accounts, the fruits of which we should begin to see in 2008.

The Directors are not recommending the payment of an interim dividend at this stage.

Chairman's statement continued

Operational review

We continue to make progress in expanding our unique offering to the large retail groups within the UK. Customers won during the period include ASDA and Porto Media, and we built significantly on our relationships with existing blue chip customers such as Tesco, Sainsbury's, and in conjunction with IBM UK Limited, Alliance Boots and Argos. In total, we delivered over 2,500 Retec units to stores during the period.

Our Entertainment Xtra offering has been enhanced, with an upgrade of our software platform that allows us greater flexibility in managing our estates and we will shortly be deploying a new selector (Entertainment II) giving the consumer more choice at the point of sale. Through our work with Porto Media we are developing a methodology to download entertainment in-store.

The development of two new products, our Wine Selector and Electrical Goods Selector, made further excellent progress during the period. These two products, both of which incorporate Retec's guided selling proposition, are either in trial or coming to trial in a number of key customers' stores, including Tesco and ASDA. We believe this is just the beginning of the range of Product Selectors that we will soon be able to offer retailers to engage customers and increase sales.

We received a further substantial order from Argos during the period, to increase the roll out of self-service terminals across 400 of its stores. These kiosks allow customers to select and pay for products, saving time and negating the need to queue, and thereby enhancing the in-store experience for Argos customers.

The work for Alliance Boots was completed in the period taking the total number of units to 1,340 which are deployed across 500 stores. We expect further enhancements to be made to this unit as more features are brought into the application.

We are now in a position to capitalise on the hard work of the last two years, during which time we have gained significant traction with a number of the largest retailers in the UK. These customers' demand for our products and services is increasing as they see the value of them, and we are also seeing a notable increase in demand from our partners with the addition of NCR Corporation since the end of June 2007.

I would like to thank all our employees for their contribution to these record half year results.



Chairman's statement continued

Current trading and prospects

The Board continues to look to develop the business substantially both through organic growth and via acquisition. Our focus remains on developing our offering in the retail sector, both with the retailers themselves and with manufacturers. Retec intends to continue expanding upon the contracts already in place, and to work closely with its business partners, in developing new prospects.

As a result of the progress made in the first six months of the financial year, and the clear opportunities which now exist for Retec, the Board looks to the future with confidence.

Sir Brian Ivory
Chairman

25 February 2008

Consolidated profit and loss account

for the six months ended 31 December 2007

	Six months ended 31 December 2007 (Unaudited) £'000	Restated Six months ended 31 December 2006 (Unaudited) £'000	Year ended 30 June 2007 (Audited) £'000
Turnover	3,544	1,332	4,069
Cost of sales	(2,617)	(1,064)	(2,820)
Amortisation of intangibles	(113)	(129)	(258)
Gross profit	814	139	991
Administrative expenses	(1,040)	(520)	(1,673)
Amortisation of intangibles	(47)	(74)	(148)
Share based payments	(19)	(6)	(23)
Operating loss	(292)	(461)	(853)
Net interest receivable	—	18	10
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	(292)	(443)	(843)
Taxation on ordinary activities	(30)	(256)	(153)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	(322)	(699)	(996)
Basic loss per share	(0.26p)	(0.67p)	(0.87p)



Consolidated balance sheet

at 31 December 2007

	As at 31 December 2007 (Unaudited) £'000	Restated As at 31 December 2006 (Unaudited) £'000	As at 30 June 2007 (Audited) £'000
Note			
ASSETS			
Non-current assets			
Intangible assets	2,789	2,957	2,816
Tangible assets	2,019	1,685	1,963
Deferred tax	508	443	524
	<u>5,316</u>	<u>5,085</u>	<u>5,303</u>
Current assets			
Inventories	190	184	130
Trade and other receivables	777	1,236	959
Current tax assets	10	—	50
Cash at bank and in hand	1,037	820	1,044
	<u>2,014</u>	<u>2,240</u>	<u>2,183</u>
Total assets	<u><u>7,330</u></u>	<u><u>7,325</u></u>	<u><u>7,486</u></u>
EQUITY			
Capital and reserves attributable to the Company's equity shareholders			
Called up share capital	5 1,801	1,801	1,801
Share premium account	3,230	3,230	3,230
Retained earnings	(2,210)	(1,603)	(1,907)
Total equity	<u>2,821</u>	<u>3,428</u>	<u>3,124</u>
LIABILITIES			
Non-current liabilities			
Borrowings	1,060	1,111	1,174
Current liabilities			
Financial liabilities	150	150	150
Trade and other payables	3,299	2,636	3,038
	<u>3,449</u>	<u>2,786</u>	<u>3,188</u>
Total liabilities	<u>4,509</u>	<u>3,897</u>	<u>4,362</u>
Total equity and liabilities	<u><u>7,330</u></u>	<u><u>7,325</u></u>	<u><u>7,486</u></u>

Consolidated statement of changes in shareholders' equity

for the six months ended 31 December 2007

	Share capital £'000	Share premium £'000	Retained earnings £'000	Total £'000
Balance at 31 December 2006 as previously stated	1,801	3,191	(1,226)	3,766
Prior year adjustment — adoption of IFRS	—	39	(377)	(338)
At 31 December 2006 as restated	1,801	3,230	(1,603)	3,428
Loss for the six months to 30 June 2007	—	—	(327)	(327)
Share based payments	—	—	23	23
Balance at 30 June 2007	1,801	3,230	(1,907)	3,124
Loss for the period	—	—	(322)	(322)
Share based payments	—	—	19	19
Balance at 31 December 2007	<u>1,801</u>	<u>3,230</u>	<u>(2,210)</u>	<u>2,821</u>



Consolidated cash flow statement

for the six months ended 31 December 2007

	Six months ended 31 December 2007 (Unaudited) £'000	Restated Six months ended 31 December 2006 (Unaudited) £'000	Year ended 30 June 2007 (Audited) £'000
Cash generated from operations			
Loss for the period	(322)	(699)	(996)
<i>Adjustments for:</i>			
Tax charge	30	256	153
Net interest receivable	—	(18)	(10)
Depreciation and amortisation	680	403	954
Share option charge	19	6	23
Increase in stock	(60)	(86)	(32)
Decrease in trade and other receivables	245	771	964
Decrease in trade and other payables	(23)	(511)	(357)
Cash inflow from operations	569	122	699
Tax refunded	28	—	9
Net cash inflow from operating activities	597	122	708
Cash flows from investing activities			
Acquisition of subsidiary	—	(206)	(206)
Net overdrafts acquired with subsidiaries	—	(82)	(82)
Purchases of property, plant and equipment	(15)	(24)	(48)
Purchases of intangible assets	(133)	—	(62)
Interest received	—	18	15
Interest paid	—	—	(5)
Net cash used in investing activities	(148)	(294)	(388)

Consolidated cash flow statement continued

for the six months ended 31 December 2007

	Six months ended 31 December 2007 (Unaudited) £'000	Restated Six months ended 31 December 2006 (Unaudited) £'000	Year ended 30 June 2007 (Audited) £'000
Cash flows from financing activities			
Issue of shares (net of issue costs)	—	1,018	1,018
Finance lease repayments	<u>(456)</u>	<u>(131)</u>	<u>(399)</u>
Net cash used in financing activities	<u>(456)</u>	<u>887</u>	<u>619</u>
Net (decrease)/increase in cash and cash equivalents	(7)	715	939
Cash and cash equivalents at beginning of period	<u>1,044</u>	<u>105</u>	<u>105</u>
Cash and cash equivalents at end of period	<u><u>1,037</u></u>	<u><u>820</u></u>	<u><u>1,044</u></u>



Notes to the financial statements

for the six months ended 31 December 2007

I. Accounting policies

Basis of preparation

The interim consolidated financial statements are for the six months ended 31 December 2007.

These interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and are covered by IFRS 1, First-time Adoption of IFRS as these are the first interim financial statements prepared by the Group under IFRS. These interim 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 IFRS standards and IFRIC interpretations that will be applicable at 30 June 2008, including those that will be available on an optional basis, are not known with certainty at the time of preparing these interim financial statements. The policies set out below have been consistently applied to all the years presented.

The Retec Digital Plc interim financial statements were prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP) until 31 December 2006. UK GAAP differs in some areas from IFRS. In preparing the financial statements, the Directors have amended certain accounting methods applied in the UK GAAP financial statements to comply with IFRS.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity and its net income and cash flows are provided in note 4.

The Group's transition date is 1 July 2005 and it prepared its opening IFRS balance sheet at that date. The Group's IFRS adoption date is 1 July 2006. The interim financial statements have been prepared under the historical cost convention.

The information set out in this interim for the six months to 31 December 2007 does not comprise statutory accounts within the meaning of Section 240 of The Companies Act 1985. The statutory accounts for the year ended 30 June 2007 incorporating an unqualified auditors' report have been filed with the Registrar of Companies.

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.

Consolidated accounts

The consolidated accounts of the Group incorporate the assets and liabilities of the Company and its subsidiary undertakings and the results for the period when they were part of the Group. Results of the subsidiary companies acquired during the period are included from the date of acquisition.

Notes to the financial statements continued

for the six months ended 31 December 2007

2. **Loss on ordinary activities after taxation** The calculation of earnings per share is based on the loss on ordinary activities after taxation and 125,709,141 (2006: 104,033,058) ordinary shares being the weighted average number of shares in issue during the half year. The weighted average number of shares in issue during the twelve months ended 30 June 2007 was 114,824,974.

Although there are options and warrants in existence, they are not dilutive and therefore the fully diluted earnings per share is unaffected.

3. **Dividends** The Directors are unable to declare an interim dividend for the period due to the deficit on the parent Company's profit and loss reserve.

4. **IFRS adjustments** As stated in note 1, the Directors have identified the following adjustments to the financial statements that are required to comply with IFRS.

Adjustments to the income statements

	Six months to 31 December 2006 £'000
Loss for the period as previously stated in the interim report	(299)
Amortisation of separately identifiable intangibles recognised on the acquisition of subsidiaries	(203)
Deferred tax on intangibles recognised	(256)
Goodwill amortisation under UK GAAP previously recognised	59
Restated loss for the year	<u>(699)</u>

Adjustments to retained earnings

	At 31 December 2006 £'000
As previously stated in the interim report	(1,226)
Amortisation of intangibles	(203)
Deferred tax	(256)
Goodwill amortised	59
Fair value adjustment	23
Restated retained earnings	<u>(1,603)</u>

There are no differences in the results and retained earnings of the Group on its transition date of 1 July 2005.



Notes to the financial statements continued

for the six months ended 31 December 2007

5. Called up share capital	Six months ended 31 December 2007 (Unaudited) £	Six months ended 31 December 2006 (Unaudited) £	Year ended 30 June 2007 (Audited) £
Authorised:			
Number: Class:			
400,000,000 Ordinary 0.5p	2,000,000	2,000,000	2,000,000
100,000 Deferred 1p	1,000	1,000	1,000
90,000,000,000 B Deferred 0.005p	4,500,000	4,500,000	4,500,000
	<u>6,501,000</u>	<u>6,501,000</u>	<u>6,501,000</u>
Alotted, issued and fully paid:			
Number: Class:			
125,709,141 Ordinary 0.5p	628,546	628,546	628,546
36,520 Deferred 1p	365	365	365
23,440,062,357 B Deferred 0.005p	1,172,003	1,172,003	1,172,003
	<u>1,800,914</u>	<u>1,800,914</u>	<u>1,800,914</u>

Notes to the financial statements continued

for the six months ended 31 December 2007

- 6. Related party transactions** During the period the Group purchased services amounting to £163,757 from Benchmark Limited, of which the son of J Cole is a director and shareholder. At the period end, an amount of £2,071 was owing to the company. This amount has been included in trade creditors.

During the period the Company was charged £9,500 by The Waybury Partnership, of which B Ellis is a partner, for the services of B Ellis. At the period end, an amount of £1,981 was owing to the partnership. This amount has been included in trade creditors.

The Company was charged £4,500 by RH & Associates, of which R Hayim is a partner, for the services of R Hayim. Included within trade creditors is £Nil owed to RH & Associates.

During the period the Company was charged £9,000 by Enitar Limited, a company of which Sir Brian Ivory is a director, for the services of Sir Brian Ivory. At the period end, an amount of £5,288 was owing to Enitar Limited. This amount has been included in trade creditors.

The Company was charged £4,500 by CSS Capital Managers, of which R H & Associates is a member, for the services of R Hayim. Included within trade creditors is £Nil owed to CSS Capital Managers.



Independent review report

We have been engaged by the Company to review the condensed set of financial statements in the interim report for the six months ended 31 December 2007 which comprises the consolidated income statement, consolidated interim balance sheet, consolidated interim statement of changes in shareholders' equity, consolidated interim cash flow statement, and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The interim report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the AIM rules. As disclosed in note 1, the annual financial statements of Retec Digital Plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim report for the six months ended 31 December 2007 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

haysmacintyre

*Chartered Accountants
Registered Auditors*

25 February 2007

Fairfax House
15 Fulwood Place
London
WC1V 6AY

www.retecdigital.com