



RETEC DIGITAL PLC
INTERIM REPORT AND
FINANCIAL STATEMENTS

for the six months ended 31 December 2006



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Chairman's statement

I am pleased to be able to report to you on the first interim report of Retec Digital ("Retec", the "Company" or the "Group") on a consolidated basis since the acquisition of Retec Interface Limited in September 2006, and Media 4 UK Limited in December 2006. The Group has made significant progress in securing new contracts and developing its business during the period.

Financial review

The results for the period reflect the consolidated numbers of the Group incorporating Retec Interface and Media 4 UK since their acquisitions in September and December respectively. Prior to the acquisition of Retec Interface, the Group operated as an investment holding company and therefore the results for the prior year period do not include the operating results of Retec Interface.

£'000	Six months ended 31 December 2006 (Unaudited)	Six months ended 31 December 2005 (Unaudited)
Turnover	1,332	10
Gross profit	268	10
Operating loss	(317)	(200)
Loss before tax	(299)	(174)
Net assets	3,766	2,017
Earnings per share		
– Basic and fully diluted	(0.29)p	(0.43)p

Turnover for the Group was £1,332,000, which reflects 3½ months trading of Retec Interface since it was acquired in September 2006. Gross profit for the Group was £268,000 and the loss before taxation was £299,000.

The basic loss per share per share was 0.29 pence.

As regards operating cash flow, the rate of "burn" is slowing in line with expectations. Since raising £1,023,000 net of expenses through the Offer for Subscription in September 2006, trading has produced a positive operating cash flow of £77,000 and the Group has invested £288,000 in acquisitions, giving a balance of cash at period end of £820,000.

Tangible assets mostly represent the equipment deployed to stores in Sainsbury's and are matched by finance lease arrangements stretching over the next two to three years.

Chairman's statement continued

For the six months to 31 December 2006, Retec Interface's turnover grew to £1,822,000 (2005: £1,163,000) an increase of 57 per cent. when compared with the prior year interim period as a result of a number of contract wins. Retec Interface's loss before taxation was £351,000 (2005: loss of £393,000), a reduction of 11 per cent. on the prior year. Since the acquisition of Retec Interface, the Group has invested in sales and marketing activities given the increase in demand for its products and services with staff numbers increasing by 39 per cent. to 25 employees.

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

Operational review

Acquisition of Retec Interface

On 11 September 2006, Retec Interface Limited was acquired by the Company through a reverse takeover and gross proceeds of £1,484,250 were raised through an Offer for Subscription. As part of this process the Company was readmitted to trading on AIM, and subsequently changed its name from Elite Strategies PLC to Retec Digital PLC on 19 September 2006.

The Group has enjoyed a busy trading period since this acquisition with a number of large retailers extending their contracts or securing new contracts with the Group, either directly or through IBM UK Limited, Retec's business partner. Today, the Group's clients include blue-chip national and international retailers such as Sainsbury's, Tesco, Argos and Woolworths.

The Board has been pleased by the uptake of its Entertainment Xtra product, particularly in relation to the Sainsbury's contract. The units have been installed in 125 of Sainsbury's largest stores and these installations have taken place ahead of schedule and within budget. This roll-out is being extended and the Company will install units across a further 75 Sainsbury's stores, taking the total number of Sainsbury's stores using Retec's Entertainment Xtra product to 200 by the end of 2007.

During the six months, 400 units in total have been installed across Argos and Woolworths stores. It has also successfully deployed its Entertainment Xtra product to 32 Tesco stores.

Of particular importance has been the growth in third party advertising on the Entertainment Xtra units, notably with the Sainsbury's contract. This new offering provides an important additional revenue stream to the business and early indications are encouraging.



Chairman's statement continued

Acquisition of Media 4 UK Limited

On 1 December 2006, Media 4 UK Limited was acquired for £192,500 before costs in cash. This business provides the installation and maintenance services to those retailers adopting Retec's product suite given the anticipation of future earnings in Retec's business from customers such as Sainsbury's and Tesco, the addition of this engineering expertise to the Group is invaluable as it enables the Group to offer its customers a complete end-to-end digital solution. In particular, where multiple applications and devices are provided to the same customer, it is anticipated that the economies of scale will provide significant cost reductions whilst at the same time improving margins for Retec.

The integration of this business, which has already contributed to the financial performance of the Group, has gone smoothly and ahead of schedule.

Employees

As part of the acquisition of Retec Interface Limited, I became Chairman on 19 October 2006, Charles McKay joined as Finance Director, stepping up from the Retec Interface Board, and more recently Ian Deste has joined as a Non-Executive Director. Harvey Lipsith and Stuart Guyton resigned from the Board during the period as part of the reverse takeover.

The past six months have been exceptionally busy for the Group, which would not have been possible without the dedication and hard work of our staff. I would like to thank all our employees for their contribution to these record half year results.

Current trading and prospects

Your Board continues to focus on end-to-end digital communications solutions both through organic growth and via acquisition. Our focus remains on developing this offer in the retail sector, both with the retailers themselves and with the manufacturers. The Group continues to expand upon the contracts already in place, and work with its business partner, IBM UK Limited, in developing new prospects.

As a result of the progress made in the first six months of the financial year and the opportunities for the Group the Board looks to the future with confidence.

Sir Brian Ivory
Chairman

22 February 2007

Consolidated profit and loss account

for the six months ended 31 December 2006

		Six months ended 31 December 2006 (Unaudited) £'000	Restated Six months ended 31 December 2005 (Unaudited) £'000	Restated Year ended 30 June 2006 (Audited) £'000
	Note			
Turnover – Continuing		2	10	44
– Acquisitions		1,330	—	—
		<u>1,332</u>	<u>10</u>	<u>44</u>
Cost of sales		(1,064)	—	—
Gross profit		268	10	44
Administrative expenses		(520)	(80)	(173)
Share based payments		(6)	(130)	(130)
Goodwill		(59)	—	—
		<u>(190)</u>	<u>(200)</u>	<u>(259)</u>
Operating loss – Continuing		(190)	(200)	(259)
– Acquisitions		(127)	—	—
Net interest receivable		18	26	57
		<u>18</u>	<u>26</u>	<u>57</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(299)	(174)	(202)
Taxation on ordinary activities	2	—	—	—
		<u>—</u>	<u>—</u>	<u>—</u>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION	3	<u>(299)</u>	<u>(174)</u>	<u>(202)</u>
Earnings per share – basic and diluted		<u>(0.29)p</u>	<u>(0.43)p</u>	<u>(0.43)p</u>



Consolidated balance sheet

at 31 December 2006

	Note	As at 31 December 2006 (Unaudited) £'000	Restated As at 31 December 2005 (Unaudited) £'000	Restated As at 30 June 2006 (Audited) £'000
FIXED ASSETS				
Investments		—	1,659	1,659
Intangible assets		3,738	—	—
Tangible assets		1,685	—	—
		<u>5,423</u>	<u>1,659</u>	<u>1,659</u>
CURRENT ASSETS				
Stock		184	—	—
Debtors				
– falling due within one year		1,236	226	294
– falling due after one year		—	—	320
Cash at bank and in hand		820	201	105
		<u>2,240</u>	<u>427</u>	<u>719</u>
CREDITORS: amounts falling due within one year		<u>(2,409)</u>	<u>(69)</u>	<u>(117)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(169)</u>	<u>358</u>	<u>602</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		5,254	2,017	2,261
CREDITORS: amounts falling due after one year		<u>(1,488)</u>	<u>—</u>	<u>—</u>
NET ASSETS		<u><u>3,766</u></u>	<u><u>2,017</u></u>	<u><u>2,261</u></u>
CAPITAL AND RESERVES				
Called up share capital	5	1,801	1,438	1,499
Share premium account	6	3,191	1,632	1,843
Profit and loss account	6	(1,226)	(1,053)	(1,081)
EQUITY SHAREHOLDERS' FUNDS		<u><u>3,766</u></u>	<u><u>2,017</u></u>	<u><u>2,261</u></u>

Consolidated cash flow statement

for the six months ended 31 December 2006

		Six months ended 31 December 2006 (Unaudited) £'000	Six months ended 31 December 2005 (Unaudited) £'000	Year ended 30 June 2006 (Audited) £'000
	Note			
NET CASH INFLOW/ (OUTFLOW) FROM OPERATING ACTIVITIES	7	77	(235)	(138)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		18	26	55
TAXATION				
UK Corporation tax paid		—	—	—
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT				
Purchase of tangible fixed assets		(24)	—	—
Proceeds from disposal of tangible fixed assets		40	—	—
Net cash inflow from capital expenditure		16	—	—
ACQUISITIONS				
Purchase of subsidiary undertakings	8	(206)	—	—
Net overdrafts acquired with subsidiaries		(82)	—	—
Purchase of investments		—	(217)	(217)
Net cash outflow from acquisitions		(288)	(217)	(217)
FINANCING				
Issue of shares (net of issue costs)		1,023	459	237
Capital element of hire purchase contracts		(131)	—	—
Net cash inflow from financing		892	459	237
INCREASE/(DECREASE) IN CASH		<u>715</u>	<u>33</u>	<u>(63)</u>



Notes to the report and financial statements

for the six months ended 31 December 2006

1. Basis of preparation and accounting policies

The interim financial information has been prepared on the basis of the accounting policies set out in the Company's 2006 statutory accounts to 30 June 2006. The interim figures have not been audited. The interim financial statement does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985 (the "Act"). The interim statements were approved by a duly appointed and authorised committee of the Board of Directors on 22 February 2007 and are unaudited. The auditors have carried out a review and their report is set out on page 12.

Comparative financial information for the 12 months ended 30 June 2006 has been extracted from the statutory accounts for the period which have been delivered to the Registrar of Companies and upon which the auditors gave an unqualified report, with no statement under Section 237(2) or (3) of the Act.

Basis of consolidation

The Group interim financial information consolidates the financial results of Retec Digital PLC and its subsidiary undertakings for the period ended 31 December 2006 using the acquisition method of accounting.

Goodwill

Goodwill on acquisitions is capitalised and amortised over 20 years on a straight line basis.

Share based payments

The adoption of FRS 20 constitutes a change in accounting policy and the impact has been reflected as a prior year adjustment. The standard 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, or the share premium account if related to a share issue, based on the fair value of the shares at the date of grant of shares or right to shares is made.

The impact of the prior year adjustment is to increase the loss for the period by £6,000 (December 2005 and June 2006: £130,000) and to change brought forward reserves by £Nil (2005: £Nil).

2. Taxation

Due to the Company's losses, no taxation charge has arisen for the 6 months.

Notes to the report and financial statements continued

for the six months ended 31 December 2006

3. **Loss on ordinary activities after taxation** The calculation of earnings per share is based on the loss on ordinary activities after taxation and 104,033,058 (2005: 39,670,988) 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 2006 was 47,054,984.

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

4. **Dividends** The Directors are unable to declare an interim dividend for the period due to the deficit on the profit and loss reserve.

5. **Called up share capital**

	Six months ended 31 December 2006 (Unaudited) £	Six months ended 31 December 2005 (Unaudited) £	Year ended 30 June 2006 (Audited) £
Authorised:			
Number: Class:			
400,000,000 Ordinary 0.5p	2,000,000	500,000	500,000
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>5,001,000</u>	<u>5,001,000</u>

On 11 September 2006, the authorised share capital of the Company was increased by 300,000,000 ordinary shares of 0.5p each.

Allotted, issued and fully paid:

Number: Class:			
125,709,142 Ordinary 0.5p	628,546	265,652	327,326
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>1,438,020</u>	<u>1,499,694</u>

On 11 and 29 September, and 23 November 2006, the Company issued a total of 60,243,917 0.5p Ordinary shares at 3.75p per share.



Notes to the report and financial statements continued

for the six months ended 31 December 2006

6. Reserves

	Profit and loss account £'000	Share premium account £'000	Total £'000
At 1 July 2006 as previously stated	(1,155)	1,917	762
Prior year adjustment – share options	74	(74)	—
At 1 July 2006 as restated	(1,081)	1,843	762
Deficit for the period	(299)	—	(299)
Share based payments	154	(148)	6
Premium on issue of shares	—	1,957	1,957
Issue costs	—	(461)	(461)
	<u>(1,226)</u>	<u>3,191</u>	<u>1,965</u>

7. Reconciliation
of operating
loss to net cash
inflow/(outflow)
from operating
activities

	Six months ended 31 December 2006 (Unaudited) £'000	Restated Six months ended 31 December 2005 (Unaudited) £'000	Restated Year ended 30 June 2006 (Audited) £'000
Operating loss	(317)	(200)	(129)
Depreciation	200	—	—
Amortisation of intangible fixed assets	59	—	—
Profit from disposal of tangible fixed assets	(11)	—	—
Share based payments	6	130	130
Increase in stock	(86)	—	—
Decrease/(increase) in debtors	771	(197)	(30)
Decrease in creditors	(545)	32	22
Net cash inflow/ (outflow) from operating activities	<u>77</u>	<u>(235)</u>	<u>(138)</u>

Notes to the report and financial statements continued

for the six months ended 31 December 2006

8. Acquisitions In September 2006, the Company increased its holding in the Ordinary share capital of Retec Interface Limited to 100 per cent., for a total consideration of £2,175,000, satisfied by the issue of 17,997,250 Ordinary shares issued at 3.75p and conversion of loan stock in issue, totalling £1,500,000.

Goodwill on acquisition of £3,600,000 has been capitalised and is being amortised over 20 years.

On 1 December 2006, the Company purchased 100 per cent. of the issued Ordinary share capital of Media 4 UK Limited for a total consideration of £206,000 satisfied by cash. Goodwill on acquisition of £177,000 has been capitalised and is being amortised over 20 years.



Independent review report

To the shareholders of Retec Digital PLC

We have been instructed by the Company to review the financial information for the six months ended 31 December 2006, which comprise the Consolidated Profit and Loss Account, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement and the 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 financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Respective responsibilities of Directors

The interim report, including the financial statements contained therein, 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 of the London Stock Exchange which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied and adequately disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 December 2006.

haysmacintyre
Chartered Accountants
Registered Auditors

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22 February 2007

