Unaudited Interim Statement
30 September 2005

Unifying IT infrastructure

InTechnology

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Chief Executive Officer's report

Overview

The performance of the Group during the first half-year has been dominated by severe pricing pressure in our Specialist Distribution divisions. This led us to take immediate corrective action to reduce the operating cost base, which we announced on 5th August 2005. This setback to the Specialist Distribution divisions, which in recent years have reported good profits and cash flows, was in contrast to a good performance by the Managed Data Services division.

The Managed Data Services division earned a profit before interest, tax and amortisation of goodwill for the first half year of £0.5m (2004: £1.7m loss), having previously achieved monthly profit on the same basis during the second half of last year.

Much senior management time has been spent implementing corrective action to the Specialist Distribution divisions in the UK and Continental Europe. As a result an exceptional reorganisation charge of £4.2m has been incurred in the first half year which we estimate will lead to annual cost savings of £6m. We have completed these corrective actions in the UK and are presently implementing the cost reductions in the Continental European subsidiaries.

In light of the reorganisation program we have also performed an impairment review of the Managed Data Services, UK and Continental European Specialist Distribution divisions in accordance with FRS 11 (see note 6 for further details). Based on our current forecasts the net assets of the Continental European business are impaired and the half year results include a £6.4m impairment charge, of which £5.1m relates to goodwill.

Trading and Operating Performance

Group turnover during the first half of the year was £131.8m (2004: £132.4m), with growth in Managed Data Services of 17% and European Specialist Distribution of 26% offset by a revenue decline in UK Specialist Distribution of 10%.

Gross profit declined by 8% to £22.8m (2004: £24.8m) reflecting a decline in gross profit margins to 17.3% (2004: 18.7%). Managed Data Services gross margins increased, but were more than offset by a fall in gross profit margins in the Specialist Distribution divisions, particularly in Europe where margins were severely impacted particularly in the first four months by US Dollar/Euro exchange rate volatility.

Operating costs before exceptional items and amortisation of goodwill were lower at £22.7m (2004: £23.6m) reflecting some of the cost reduction plans implemented during the second quarter. Net operating expenses were £35.7m (2004: £26.0m).

Earnings before interest, tax, amortisation of goodwill and exceptional items were £0.1m (2004: £1.2m) reflecting increased earnings in Managed Data Services but lower earnings in UK and Continental European Specialist Distribution.

The Group incurred a loss before tax and amortisation of goodwill of £11.8m (2004: profit £0.2m) after net interest expense of £1.1m (2004: £1.0m). Loss on ordinary activities before tax was £14.1m (2004: £2.2m).

InTechnology ended the period with gross cash of £7.4m (2004: £8.9m) and net debt including finance leases and term loans of £25.0m (30 September 2004: £16.8m, 31 March 2005: £22.2m). The increase in debt reflects the lower earnings in both Specialist Distribution divisions. Capital expenditure was £1.7m (2004: £3.2m).

Specialist Distribution Division

The *UK Specialist Distribution* business which distributes to corporate resellers of enterprise storage and security products, including software, operates from London, Reading and our head office in Harrogate. Revenues declined by 10% to £84.8m (2004: £94.5m), and gross profit margins fell to 11.3% (2004: 12.9%) caused by a difficult trading environment throughout the UK IT market and in particular lower storage product sales. Earnings before interest, tax, amortisation of goodwill and exceptional charges were £0.7m (2004: £3.4m).

Along with others in our sector we have experienced trading conditions that have led to pressure on margins which continue to be caused by both vendors and customers. These pressures intensified in the latter stages of our first quarter.

To alleviate the pressure on operating margins, we immediately commenced a cost reduction programme incurring exceptional charges of £2.5m (2004: £nil) to achieve estimated annual divisional savings of £4.1m. Staff numbers were cut by 42 and office space has been reduced.

In addition we accelerated organisational changes to bring more resource into our sales teams and we have taken a more proactive approach to sales in our storage and security divisions in the UK. We are seeing the benefits of this approach coming through already. We are also enhancing the important back office functions by continuing to invest in our IT Systems which interface with vendors and customers.

Our modus operandi in the Specialist Distribution business has always been to adjust our operating cost base to market conditions and to drive greater volume from that cost base. Our immediate challenge is to restore this division to previous levels of profitability. Control of working capital will ensure healthy cash generation, and our record in controlling inventory and accounts receivable has always been good.

In *Continental Europe* we have expanded our Specialist Distribution portfolio to include network products in certain countries in addition to security products and software.

Revenues increased by 26% to £34.9m (2004: £27.7m), but gross margins fell to £4.3m (2004: £5.2m) as intense pricing pressure, together with unfavourable exchange rate movements of £1.0m (2004: £nil), impacted the first half year. The loss before interest, tax, amortisation of goodwill and exceptional charges was £1.1m (2004: £0.5m profit).

We carried out a fundamental review of the division and are implementing restructuring of all our Continental European subsidiaries in order to restore them to profitability. An amount of £1.7m specific to Continental Europe is included in the exceptional costs of reorganisation.

The operating losses in this division are disappointing particularly in light of the revenue growth achieved. Much of this increase occurred in Southern Europe, which in turn increased the Group's working capital requirement because of the comparatively high debtor days in this area. The reorganisation being implemented should restore this Division to profitability by reducing its operating cost base.

Managed Data Services Division

Managed Data Services revenues increased by 17% to £12.0m (2004: £10.3m) with operating profits before interest, tax, amortisation of goodwill and exceptional charges of £0.5m (2004: £1.7m loss). It is most satisfying to report our first period of profitability for the Division.

Last year and again in June 2005 we said that this Division was firmly positioned to embark on further profitable growth. All the new services that were mentioned in our preliminary results in June have been launched and have been well received. Since the launch of our VBAK service in 2000 we have continued to expand our portfolio and now have a broad range of services all based around our core competencies of data storage, networks and hosting. The services are:

- VBAK
- Data Replication
- Managed Firewall
- Private Hosting Suite
- Long Term Storage
- Internet Access
- Voice over IP
- Virtual Private Networks
- Information Life Cycle Management
- Dedicated Hosting Racks

At 30 September 2005 our annual recurring revenues were £25.3m (2004: £20.7m).

Outlook

In common with most other companies in our sector, the first half of the year has been dominated by margin pressures in the distribution market. We have taken immediate action to restore the Group to profitability.

Having completed our restructuring in the UK, we have now commenced reorganisation in Continental Europe. We plan for a swift increase in UK Specialist Distribution profitability and expect the Continental European Specialist Distribution business to reduce operating losses during the second half year.

The prospects for Managed Data Services are encouraging; we have expanded our range of services and increased our ability to cross sell to the existing customer base.

Peter Wilkinson
Chief Executive Officer
17 November 2005

Consolidated profit & loss account

For the 6 months ended 30 September 2005

	Note	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000
Turnover		131,779	132,420	283,522
Cost of sales		(108,990)	(107,583)	(230,579)
Gross profit		22,789	24,837	52,943
Net operating expenses before depreciation, amortisation of goodwill and exceptional items		(19,734)	(20,496)	(42,204)
Depreciation		(2,999)	(3,152)	(6,388)
Amortisation of goodwill		(2,372)	(2,320)	(4,635)
Exceptional costs of reorganisation	5	(4,215)	-	-
Exceptional impairment charge	6	(6,423)	-	-
Net operating expenses		(35,743)	(25,968)	(53,227)
Group operating loss	1, 2	(12,954)	(1,131)	(284)
Net interest payable		(1,134)	(1,036)	(2,181)
Loss on ordinary activities before taxation		(14,088)	(2,167)	(2,465)
Tax on loss on ordinary activities	3	400	(64)	(110)
Loss sustained for the period		(13,688)	(2,231)	(2,575)
EBITAE		56	1,189	4,351
EBITA		(4,159)	1,189	4,351
Loss per share (pence)	4			
Basic and diluted		(9.88)	(1.61)	(1.84)

EBITAE comprises earnings before interest, taxation, amortisation of goodwill and exceptional items.

EBITA comprises earnings before interest, taxation, amortisation of goodwill and exceptional impairment charge.

There is no difference between the loss on ordinary activities before taxation and the loss sustained for the period ended 30 September 2005 and their historical cost equivalents.

Consolidated balance sheet

As at 30 September 2005

	30 September 2005 (Unaudited) £'000	30 September 2004 (Unaudited) £'000	31 March 2005 (Audited) £'000
Fixed assets			
Intangible assets	67,342	75,516	74,813
Tangible assets	12,066	13,497	14,773
	79,408	89,013	89,586
Current assets			
Stock	10,897	10,660	13,179
Debtors	91,348	84,038	105,399
Cash at bank and in hand	7,432	8,864	10,488
	109,677	103,562	129,066
Creditors – amounts falling due within one year	(103,702)	(89,008)	(118,174)
Net current assets	5,975	14,554	10,892
Total assets less current liabilities	85,383	103,567	100,478
Creditors – amounts falling after more than one year	(5,725)	(13,630)	(9,001)
Provision for liabilities and charges	(1,934)	(50)	-
Net assets	77,724	89,887	91,477
Capital and reserves			
Called up share capital - equity	1,411	1,388	1,411
- non-equity	480	480	480
Share premium account	188,668	188,508	188,668
Revaluation reserve	1,754	-	1,754
Profit and loss account	(114,589)	(100,489)	(100,836)
Shareholders' funds (including non-equity interests)	77,724	89,887	91,477
Shareholders' funds compromise:			
Equity interests	75,484	87,647	89,237
Non-equity interests	2,240	2,240	2,240
	77,724	89,887	91,477

Consolidated cash flow statement

For the 6 months ended 30 September 2005

	Note	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000
Net cash inflow/(outflow) from operating activities	7	251	(878)	(2,000)
Returns on investments and servicing of finance				
Interest received		59	107	160
Interest element of finance lease payments		(127)	(133)	(282)
Interest paid		(1,054)	(968)	(2,033)
Net cash outflow from returns on investments and servicing of finance		(1,122)	(994)	(2,155)
Taxation paid		(128)	(470)	(1,135)
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(1,132)	(2,110)	(6,106)
Sale of tangible fixed assets		26	28	1,542
Net cash outflow from capital expenditure and financial investment		(1,106)	(2,082)	(4,564)
Acquisitions				
Purchase of subsidiary undertakings (including costs)		-	(900)	(980)
Net cash outflow from acquisitions		-	(900)	(980)
Net cash outflow before financing		(2,105)	(5,324)	(10,834)
Financing				
Issue of ordinary share capital		-	92	275
Net (decrease)/increase in borrowings		(71)	(1,114)	6,615
Capital element of finance lease payments		(868)	(1,219)	(1,991)
Net cash (outflow)/inflow from financing		(939)	(2,241)	4,899
Decrease in cash in the period	8	(3,044)	(7,565)	(5,935)

Notes to the interim financial information

For the 6 months ended 30 September 2005

1 Basis of preparation

The financial information included in this interim statement for the 6 months ended 30 September 2005 does not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985 and is not audited or reviewed. In preparing this interim statement, management have considered the requirements of FRS 21 'Events after the balance sheet date' and FRS 22 'Earnings per share' which are applicable for accounting periods beginning on or after 1 January 2005. There have been no other changes to the accounting policies as set out in the 2005 Report and Accounts. The financial information relating to the year ended 31 March 2005 has been extracted from the statutory accounts for that year which have been filed with the Registrar of Companies and on which the auditors gave an unqualified opinion.

2 Segmental information

	Turnover by destination			Turnover by source		
	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000
Geographical analysis						
United Kingdom	95,075	104,411	217,761	96,865	104,729	220,339
Continental Europe	36,110	25,565	64,970	34,914	27,691	63,183
North America	380	2,214	207	–	–	–
Africa	110	186	68	–	–	–
Rest of the World	104	44	516	–	–	–
Total	131,779	132,420	283,522	131,779	132,420	283,522

	Operating (loss)/profit by source		
	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000
Geographical analysis			
United Kingdom	(3,870)	(614)	(403)
Continental Europe	(9,084)	(517)	119
Total	(12,954)	(1,131)	(284)

Notes to the interim financial information continued

2 Segmental information (continued)

	Turnover			Operating profit/(loss) before goodwill amortisation and exceptional items		
	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000
Business analysis						
Specialist Distribution	119,760	122,163	261,449	(446)	2,916	6,321
Managed Data Services	12,019	10,257	22,073	502	(1,727)	(1,970)
Total	131,779	132,420	283,522	56	1,189	4,351

	Operating (loss)/profit after goodwill amortisation and exceptional items		
	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000
Business analysis			
Specialist Distribution	(11,204)	1,739	3,967
Managed Data Services	(1,750)	(2,870)	(4,251)
Total	(12,954)	(1,131)	(284)

The segmental analysis above excludes net interest payable of £1,134,000 (30 September 2004: £1,036,000, 31 March 2005: £2,181,000) which is not analysed by business segment.

3 Tax on loss on ordinary activities

The corporation tax credit for the 6 months to 30 September 2005 is £400,000 (30 September 2004: £64,000 charge, 31 March 2005: £110,000 charge). Taxation has been calculated by applying the directors' best estimate of the effective tax rate for the period, which is 29% in the UK and approximately 2% in respect of European operations (30 September 2004: 41% UK, 37% Europe, 31 March 2005: 30% UK, 46% Europe) to the profit or loss, before goodwill amortisation, for the period.

4 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of £13,688,000 (30 September 2004: £2,231,000, 31 March 2005: £2,575,000) by the weighted average number of ordinary shares in issue during the period of 138,569,582 (30 September 2004: 138,569,582, 31 March 2005: 139,575,879).

The adjusted basic and diluted earnings per share have been calculated to provide a better understanding of the underlying performance of the Group as follows:

	6 months ended 30 September 2005 (Unaudited) Basic and diluted		6 months ended 30 September 2004 (Unaudited) Basic and diluted		Year ended 31 March 2005 (Audited) Basic and diluted	
	(Loss)/ earnings £'000	(Loss)/ earnings per share pence	(Loss)/ earnings £'000	(Loss)/ earnings per share pence	(Loss)/ earnings £'000	(Loss)/ earnings per share pence
Loss attributable to ordinary shareholders	(13,688)	(9.88)	(2,231)	(1.61)	(2,575)	(1.84)
Amortisation of goodwill	2,372	1.71	2,320	1.67	4,635	3.32
Exceptional costs of reorganisation (note 5)	4,215	3.04	-	-	-	-
Exceptional impairment charge (note 6)	6,423	4.64	-	-	-	-
Adjusted basic (loss) /earnings per share	(678)	(0.49)	89	0.06	2,060	1.48

The loss attributable to ordinary shareholders and the weighted average number of ordinary shares for the purpose of calculating the diluted earnings per ordinary share are identical to those used for basic earnings per ordinary share. This is because the exercise of share options would have the effect of reducing the loss per ordinary share and is therefore not dilutive under the terms of FRS 22 'Earnings per share'.

5 Exceptional costs of reorganisation

The exceptional costs of reorganisation of £4,215,000 (30 September 2004: £nil, 31 March 2005: £nil) relate to headcount reductions of £2,747,000, property related costs of £761,000 and fixed asset write-offs of £707,000. Restructuring costs of £1,644,000 (30 September 2004: £nil, 31 March 2005: £nil) have been paid in the period.

Notes to the interim financial information continued

6 Exceptional impairment charge

In light of the reorganisation (note 5) the Board has conducted an impairment review of the carrying value of goodwill arising on the acquisition of HOLF Technologies Limited and VData Limited in July 2000 together with the Allasso Group of companies in July 2003 in accordance with FRS 11 'Impairment of fixed assets and goodwill'.

The Directors have considered the recoverable amounts by reference to the net present value of estimated current and future cash flows of the relevant income generating units.

The Directors considered it appropriate to use a cost of capital relevant to the risks and stage of development associated with each income generating unit.

The exceptional impairment arises in respect of the Allasso companies based in continental Europe and referred to as the Group's Continental European Specialist Distribution Division, the after tax cost of capital used being 6.6%. The Directors have concluded that the carrying value of the assets, including goodwill, exceed the higher of net realisable value and value in use by £6,423,000, and accordingly an impairment charge of this amount has been made in the profit and loss account for the period ended 30 September 2005. The impairment charge has been made as £5,117,000 against remaining goodwill and £1,306,000 against remaining net assets of £3,714,000.

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

	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000
Operating loss	(12,954)	(1,131)	(284)
Depreciation of tangible fixed assets	2,999	3,152	6,388
Exceptional costs of reorganisation - fixed asset depreciation	287	-	-
Goodwill amortisation	2,372	2,320	4,635
Exceptional impairment charge (note 6)	6,423	-	-
Loss/(profit) on sale of tangible fixed assets	341	27	(262)
Exchange movements	(11)	-	14
Decrease/(increase) in stocks	1,834	163	(2,368)
Decrease/(increase) in debtors	6,364	10,566	(12,901)
(Decrease)/increase in creditors and provisions	(7,404)	(15,975)	2,778
Net cash inflow/(outflow) from operating activities	**251**	**(878)**	**(2,000)**

8 Reconciliation of movement in net debt

	6 months ended 30 September 2005 (Unaudited) £'000	6 months ended 30 September 2004 (Unaudited) £'000	Year ended 31 March 2005 (Audited) £'000
Decrease in cash in the period	(3,044)	(7,565)	(5,935)
Net cash outflow from decrease in finance leases	868	1,219	1,991
Cash outflow/(inflow) from repayment/(advance) of debt	71	1,114	(6,615)
Change in net funds resulting from cash flows	(2,105)	(5,232)	(10,559)
Non-cash changes:			
Exchange movements	(14)	(69)	(91)
Inception of new finance leases	(594)	(1,079)	(1,070)
Debt issue costs	(38)	(38)	(75)
Movement in net funds in the period	(2,751)	(6,418)	(11,795)
Net debt at start of period	(22,200)	(10,405)	(10,405)
Net debt at end of period	(24,951)	(16,823)	(22,200)

9 Shareholder information

The interim announcement will be posted to shareholders on 25 November 2005. Further copies are available on request from the registered office of the Company at Nidderdale House, Beckwith Knowle, Harrogate, HG3 1SA.

Corporate information

Board of Directors:

The Rt. Hon. Lord Parkinson	Non-Executive Chairman
Joe McNally	Non-Executive Director
Charles Scott	Non-Executive Director
Peter Wilkinson	Chief Executive Officer
Richard James	Director & Company Secretary
Andrew Kaberry	Finance Director
Steve Pearce	Chief Operating Officer and Business Development Director
Bryn Sage	Sales Director
Jason Firth	Director of Professional Services

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