Unaudited Interim Financial Information 2006

Unifying IT infrastructure

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Chief Executive Officer's statement

Overview

In my report to shareholders on 30 June 2006 I referred to the disposal of the loss making and cash draining European Distribution subsidiaries and the necessary cost reduction programme that had to be carried out in both the UK Distribution and Managed Services divisions. I ended by saying that going forward the Group's senior management team needed to focus its attention on profit making.

I am pleased to report that we have achieved this and the good trading results before exceptional items for the first half-year contrast those reported one year ago. Whilst much remains to be achieved we have made significant progress to improve medium term profitability.

The comparative information given below includes the results of the Group's continuing operations and excludes those of the European Distribution business sold on 31 March 2006.

Trading and Operating Performance

- Group turnover during the first half year of the year was £107.8m (2005: £96.9m), an increase of 11%. Gross profit was £20.0m (2005: £18.5m), an increase of 8%.
- Earnings before interest, tax, amortisation of goodwill and exceptional charges were £2.7m (2005: £1.0m), an increase of 170%.
- The Group operating loss from continuing operations was £4.6m (2005: £4.0m). Total Group loss sustained for the period after interest, taxation and all charges was £6.0m (2005: £13.8m).
- The Group ended the period with gross cash of £8.8m (30 September 2005: £7.4m, 31 March 2006: £12.7m) and net debt including finance leases and term loans of £10.1m (30 September 2005: £25.0m, 31 March 2006: £19.5m). During the first half of this financial year cash received from the sale of the European subsidiaries was £16.5m.
- In preparing this interim statement we have adopted FRS 20 'share-based payment'. The net effect of this change in policy for the period has been to increase net operating expenses by £0.2m (2005: £0.1m). Prior year comparatives have been restated accordingly (see note 1 for further information).

Specialist Distribution Division Trading Review

Revenues increased to £94.1m (2005: £84.9m) but gross margins decreased to 10.6% (2005: 11.3%) as the margin squeeze from both vendors and customers continued. Earnings before interest, tax, amortisation of goodwill and exceptional charges were £1.8m (2005: £0.6m). Exceptional charges of £5m in respect of goodwill impairment (note 3) were incurred in the period (2005: £1.6m in respect of restructuring). Operating loss was £4.2m (2005: £2.2m).

The cost reductions initiated last year, combined with our withdrawal from high volume low margin business particularly in the security software division, helped to alleviate the pressure on gross margins. The sales force continued to concentrate on developing new business with smaller customers where gross margins are better.

Sale of Specialist Distribution Division

In my discussions about last year's full year results I said that over the next few years there will be consolidation across Europe of both Distributors and Reseller partners. We were approached during this year by a leading US distributor, Arrow Electronics Inc ('Arrow'), and, on 6 December 2006 signed contracts to sell the Specialist Distribution division with completion on 29 December 2006. The sale is conditional on EU Merger clearance being obtained and on there being no material adverse change affecting the business. Some 200 staff will transfer to Arrow on completion thereby reducing Group headcount to 165. There will be a corporation tax liability arising on the deal which will be confirmed once completion accounts are agreed. Based on the anticipated level of sale proceeds from the transaction compared to the book value of the assets to be disposed a £5.0m impairment of goodwill has been booked.

I am delighted by this announcement which will enable us to concentrate entirely on the Managed Data Services division which has consistently had higher gross margins. Furthermore, I am pleased that Arrow is the acquirer. They will endeavour to grow the business and there are no planned redundancies.

Managed Data Services Division

Revenues were £13.7m (2005: £12.0m), an increase of 14% despite the churn of some large contracts having annualised revenues of £2.4m. Gross profit margins were 73.3% (2005: 74.0%). Operating costs rose to £9.2m (2005: £8.4m) mainly due to investment during this half year in the new Managed Voice Services division, electricity cost increases not recovered and certain large one-off technology cost increases as we migrated data services to a new low cost delivery.

Operating profit before interest, tax, amortisation of goodwill and exceptional charges was £0.8m (2005: £0.5m). There were no exceptional charges in this half year (2005: £1.1m). The division achieved operating margins before amortisation of goodwill and exceptional items of 6.1% (2005: 3.9%) compared to 2.1% (2005: 0.7%) in Distribution. The divisional operating loss was £0.3m (2005: £1.8m).

We have won a number of new clients in the past six months and significant contract wins were from Smith & Nephew, DLA, TubeLines, Principal Hotels and UKERNA. We have successfully reduced our rate of customer churn during H1 to less than 3% per annum (FY 2006: 9.7%).

Importantly we have successfully relocated and reorganised the division in Harrogate. I believe we now have the correct structure in sales, service delivery and support to help drive forward an expanding and profitable business.

We continue to develop and enhance products in both data and voice service businesses and are optimistic for the future.

Mobile Tornado plc

During October 2006 we invested £4m cash in Mobile Tornado plc giving InTechnology a 42% holding. Predating InTechnology's investment, both myself and Richard James, Director of Legal Affairs and Company Secretary, together hold a further 16% as private investors.

Mobile Tornado owns intellectual property in an exciting part of the mobile and fixed line telco sector. It continues to develop its technology in the push to talk, push to mail and push to video applications, and is already a strategic supplier of technology to major infrastructure providers in the long awaited IMS rollout. We believe that Mobile Tornado should have adequate cash following our investment to successfully prove its technology to a global market and will therefore deliver an excellent return on our investment.

Furthermore it importantly provides InTechnology with a unique managed services product to market in the UK and we are confident that the investment can be justified on this offering alone. However, this is not expected to earn revenues and gross margins until FY 2008.

Outlook

We have turned the Group around in reducing the losses of a year ago. Net debt has been reduced and the funds generated by the sale of the Specialist Distribution division will eliminate all debt, finance the recent Mobile Tornado investment and possible further acquisitions.

Following the sale of the Specialist Distribution business, Managed Services is the sole engine for increasing Group profitability and we have the opportunity to reposition ourselves in the market as a Reseller instead of a Distributor. High margins from recurring service revenues together with tight control of costs are the future. We have said many times in the past that Managed Services can achieve operating margins greater than the gross margins in Distribution. We now aim to prove this in the next few years by organic growth, possible acquisitions and the continued development of data and voice solutions to businesses in both the private and public sectors. I have every confidence that as a more focused Group we will experience increased revenues and profits as we move forward.

Peter Wilkinson

Chief Executive Officer

7 December 2006

Consolidated profit & loss account

For the 6 months ended 30 September 2006

	Note	6 months ended 30 September 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) (Restated) £'000	Year ended 31 March 2006 (Unaudited) (Restated) £'000
Turnover				
Continuing operations		107,789	96,865	214,966
Discontinued operations		-	34,914	69,763
		107,789	131,779	284,729
Cost of sales		(87,756)	(108,990)	(235,656)
Gross profit		**20,033**	**22,789**	**49,073**
Net operating expenses before depreciation, amortisation of goodwill and exceptional items		(14,780)	(19,734)	(39,359)
Depreciation		(2,416)	(2,999)	(5,716)
FRS 20 share option charge		(160)	(132)	(264)
Amortisation of goodwill		(2,234)	(2,372)	(4,732)
Exceptional costs of reorganisation		-	(4,215)	(5,491)
Exceptional impairment charge	3	(5,000)	(6,423)	-
Net operating expenses		(24,590)	(35,875)	(55,562)
Group operating loss				
Continuing operations		(4,557)	(4,002)	(1,149)
Discontinued operations		-	(9,084)	(5,340)
Group operating loss	**1, 2**	**(4,557)**	**(13,086)**	**(6,489)**
Loss on sale of subsidiary undertakings		-	-	(3,661)
Net interest payable		(790)	(1,134)	(2,226)
Loss on ordinary activities before taxation		**(5,347)**	**(14,220)**	**(12,376)**
Tax on loss on ordinary activities	4	(641)	440	530
Loss sustained for the period		**(5,988)**	**(13,780)**	**(11,846)**
Loss per share (pence)				
Basic and diluted	5	(4.24)	(9.94)	(8.39)
EBITAE		2,677	(76)	3,734

Consolidated balance sheet

As at 30 September 2006

		30 September 2006 (Unaudited) £'000	30 September 2005 (Unaudited) (Restated) £'000	31 March 2006 (Unaudited) (Restated) £'000
Fixed assets				
Intangible assets		57,869	67,342	65,104
Tangible assets		9,887	12,066	10,424
		67,756	**79,408**	**75,528**
Current assets				
Stock		7,918	10,897	6,622
Debtors		65,560	91,483	89,421
Cash at bank and in hand		8,788	7,432	12,719
		82,266	109,812	108,762
Creditors - amounts falling due within one year		(73,828)	(103,702)	(100,285)
Net current assets		**8,438**	**6,110**	**8,477**
Total assets less current liabilities		**76,194**	**85,518**	**84,005**
Creditors - amounts falling after more than one year		(2,022)	(5,725)	(4,015)
Provision for liabilities and charges		-	(1,934)	-
Net assets		**74,172**	**77,859**	**79,990**
Capital and reserves				
Called up share capital	- equity	1,415	1,411	1,411
	- non-equity	480	480	480
Share premium account		188,671	188,668	188,668
Revaluation reserve		1,592	1,754	1,646
Share option reserve		742	450	581
Profit and loss account		(118,728)	(114,904)	(112,796)
Shareholders' funds (including non-equity interests)		**74,172**	**77,859**	**79,990**
Shareholders' funds compromise:				
Equity interests		71,932	75,619	77,750
Non-equity interests		2,240	2,240	2,240
		74,172	**77,859**	**79,990**

Consolidated cash flow statement

For the 6 months ended 30 September 2006

	Note	6 months ended 30 September 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) (Restated) £'000	Year ended 31 March 2006 (Unaudited) (Restated) £'000
Net cash inflow from operating activities	6	**12,388**	**251**	**10,667**
Returns on investments and servicing of finance				
Interest received		71	59	92
Interest element of finance lease payments		(99)	(127)	(232)
Interest paid		(753)	(1,054)	(2,008)
Net cash outflow from returns on investments and servicing of finance		**(781)**	**(1,122)**	**(2,148)**
Taxation paid		**(400)**	**(128)**	**(822)**
Capital expenditure and financial investment				
Purchase of tangible fixed assets		(945)	(1,132)	(2,077)
Sale of tangible fixed assets		44	26	67
Net cash outflow from capital expenditure and financial investment		**(901)**	**(1,106)**	**(2,010)**
Disposals				
Cash disposed of on sale of subsidiary undertakings		-	-	(2,185)
Net cash outflow from disposals		**-**	**-**	**(2,185)**
Net cash inflow/(outflow) before financing		**10,306**	**(2,105)**	**3,502**
Financing				
Net (decrease)/increase in borrowings		(13,525)	(71)	431
Capital element of finance lease payments		(712)	(868)	(1,706)
Net cash outflow from financing		**(14,237)**	**(939)**	**(1,275)**
(Decrease)/increase in cash in the period	7	**(3,931)**	**(3,044)**	**2,227**

Consolidated statement of total recognised gains and losses

For the 6 months ended 30 September 2006

	Note	30 September 2006 (Unaudited) £'000	30 September 2005 (Unaudited) (Restated) £'000	31 March 2006 (Unaudited) (Restated) £'000
Loss sustained for the financial period		**(5,988)**	**(13,780)**	**(11,846)**
Exchange loss on translation of overseas subsidiaries		-	(187)	-
Exchange gain on translation of hedging loan		-	122	-
Total recognised gains and losses relating to the period		**(5,988)**	**(13,845)**	**(11,846)**
Prior year adjustment	1	174	-	-
Total recognised gains and losses since last annual report		**(5,814)**	**(13,845)**	**(11,846)**

Notes to the interim financial information

For the 6 months ended 30 September 2006

1 Basis of preparation

The financial information included in this interim statement for the 6 months ended 30 September 2006 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 adopted FRS 20 'share-based payment'.

Share Based Payments

The adoption of this standard represents a change in accounting policy and the prior year comparatives have been restated accordingly. The effects of the change on net operating expenses and the tax credit for the period ended 30 September 2005 and the year ended 31 March 2006 are summarised as follows:

The Group operates a number of equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity. 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.

	Net operating expenses £'000	Tax credit £'000
Period ended 30 September 2005 (unaudited)		
As previously stated	(35,743)	400
Restated	(35,875)	440
Year ended 31 March 2006		
As previously stated	(55,298)	451
Restated	(55,562)	530

The net effect of the change in policy in the year ended 31 March 2006 is to increase net operating expenses by £264,000, increase the tax credit on the loss on ordinary activities by £79,000 and increase the loss sustained for the financial year by £185,000.

The cumulative effect of implementing the policy is to increase Group reserves at 31 March 2006 by £174,000 (2005: £95,000). The changes are summarised as follows:

1 Basis of preparation (continued)

	Share option reserve £'000	Profit and loss £'000	Shareholders' funds £'000
Period ended 30 September 2005 (unaudited)			
As previously stated	-	(114,589)	77,724
Restated	450	(114,904)	77,859
Year ended 31 March 2006			
As previously stated	-	(112,389)	79,816
Restated	742	(112,796)	79,990

There have been no other changes to the accounting policies as set out in the 2006 Report and Accounts. The financial information relating to the year ended 31 March 2006 has been extracted from the statutory accounts for that year, with the exception of the prior period adjustment described above, 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 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) £'000	Year ended 31 March 2006 (Audited) £'000	6 months ended 30 September 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) £'000	Year ended 31 March 2006 (Audited) £'000
Geographical analysis						
United Kingdom	104,380	95,075	210,944	107,460	96,865	214,966
Continental Europe	3,269	36,110	72,488	329	34,914	69,763
North America	102	380	555	-	-	-
South and Central America	-	-	151	-	-	-
Africa	-	110	455	-	-	-
Australasia	38	104	136	-	-	-
Total	**107,789**	**131,779**	**284,729**	**107,789**	**131,779**	**284,729**

	Operating loss by source		
	6 months ended 30 September 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) (Restated) £'000	Year ended 31 March 2006 (Unaudited) (Restated) £'000
Geographical analysis			
United Kingdom	(4,555)	(4,002)	(1,149)
Continental Europe	(2)	(9,084)	(5,340)
Total	**(4,557)**	**(13,086)**	**(6,489)**

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 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) £'000	Year ended 31 March 2006 (Audited) £'000	6 months ended 30 September 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) (Restated) £'000	Year ended 31 March 2006 (Unaudited) (Restated) £'000
Business analysis						
Specialist Distribution:						
UK	93,764	84,846	189,632	1,848	552	4,074
Europe	329	34,914	69,763	(2)	(1,095)	(2,039)
Managed Data Services	13,696	12,019	25,334	831	467	1,699
Total	**107,789**	**131,779**	**284,729**	**2,677**	**(76)**	**3,734**

	Operating loss after goodwill amortisation and exceptional items		
	6 months ended 30 September 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) (Restated) £'000	Year ended 31 March 2006 (Unaudited) (Restated) £'000
Business analysis			
Specialist Distribution:			
UK	(4,243)	(2,217)	383
Europe	(2)	(9,084)	(5,340)
Managed Data Services	(312)	(1,785)	(1,532)
Total	**(4,557)**	**(13,086)**	**(6,489)**

The segmental analysis above excludes net interest payable of £790,000 (30 September 2005: £1,134,000, 31 March 2006: £2,226,000) which is not analysed by business segment.

3 Exceptional impairment charge

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 HOLF Technologies Limited and Allasso UK, referred to as the Group's UK Distribution Division, the after tax cost of capital used being 7.1%. In light of the sale of the trade and assets of the UK Distribution Division on 6 December 2006 to Digital Network Services (UK) Limited (a subsidiary of Arrow Electronics Inc), 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 £5,000,000, and accordingly an impairment charge of this amount has been made in the profit and loss account for the period ended 30 September 2006.

4 Tax on loss on ordinary activities

The corporation tax charge for the 6 months to 30 September 2006 is £641,000 (30 September 2005: £440,000 credit, 31 March 2006: £530,000 credit). Taxation has been calculated by applying the directors' best estimate of the effective tax rate for the period, which is 34% (30 September 2005: 29% in the UK and approximately 2% in respect of discontinued European operations, 31 March 2006: 16% in the UK and approximately 2% in respect of discontinued European operations) to the profit or loss for the period, before goodwill amortisation and exceptional impairment which are not deductible for tax purposes.

Notes to the interim financial information continued

5 Loss per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of £5,988,000 (30 September 2005: £13,780,000, 31 March 2006: £11,846,000) by the weighted average number of ordinary shares in issue during the period of 141,111,944 (30 September 2005: 138,569,582, 31 March 2006: 141,111,944).

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 2006 (Unaudited) Basic and diluted		6 months ended 30 September 2005 (Unaudited) Basic and diluted		Year ended 31 March 2006 (Unaudited) Basic and diluted	
	(Loss)/ earnings £'000	(Loss)/ earnings per share pence	(Loss)/ earnings (Restated) £'000	(Loss)/ earnings per share (Restated) pence	(Loss)/ earnings (Restated) £'000	(Loss)/ earnings per share (Restated) pence
Loss attributable to ordinary shareholders	(5,988)	(4.24)	(13,780)	(9.94)	(11,846)	(8.39)
FRS 20 share option charge	160	0.12	132	0.10	264	0.19
Amortisation of goodwill	2,234	1.58	2,372	1.71	4,732	3.35
Exceptional costs of reorganisation	-	-	4,215	3.04	4,848	3.44
Exceptional impairment charge	5,000	3.54	6,423	4.64	-	-
Loss on sale of subsidiary undertakings	-	-	-	-	3,723	2.64
Adjusted basic earnings/ (loss) per share	**1,406**	**1.00**	**(638)**	**(0.45)**	**1,721**	**1.23**

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'.

6 Reconciliation of operating profit to net cash inflow from operating activities

	6 months ended 30 September 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) (Restated) £'000	Year ended 31 March 2006 (Unaudited) (Restated) £'000
Operating loss	(4,557)	(13,086)	(6,489)
Depreciation of tangible fixed assets	2,416	2,999	5,716
Goodwill amortisation	2,234	2,372	4,732
Exceptional costs of reorganisation - fixed asset depreciation	-	287	332
Exceptional impairment charge	5,000	6,423	-
(Profit)/loss on sale of tangible fixed assets	(27)	341	331
Exchange movements	-	(11)	5
Share option non cash charge	160	132	264
(Increase)/decrease in stocks	(1,296)	1,834	5,227
Decrease/(increase) in debtors	23,634	6,364	(2,844)
(Decrease)/increase in creditors and provisions	(15,176)	(7,404)	3,393
Net cash inflow from operating activities	**12,388**	**251**	**10,667**

7 Reconciliation of movement in net debt

	6 months ended 30 September 2006 (Unaudited) £'000	6 months ended 30 September 2005 (Unaudited) £'000	Year ended 31 March 2006 (Audited) £'000
(Decrease)/increase in cash in the period	(3,931)	(3,044)	2,227
Net cash outflow from decrease in finance leases	712	868	1,706
Cash outflow/(inflow) from repayment/(advance) of debt	13,525	71	(431)
Change in net debt resulting from cash flows	10,306	(2,105)	3,502
Non-cash changes:			
Exchange movements	-	(14)	(36)
Inception of new finance leases	(963)	(594)	(656)
Finance leases on disposal	-	-	13
Debt issue costs	(38)	(38)	(75)
Movement in net debt in the period	9,305	(2,751)	2,748
Net debt at start of period	(19,452)	(22,200)	(22,200)
Net debt at end of period	**(10,147)**	**(24,951)**	**(19,452)**

8 Shareholder information

The interim announcement will be posted to shareholders on 20 December 2006. 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
Bryn Sage	Managed Data Services
Jason Firth	Professional Services

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