InTechnology

Secure Offsite Data

INTECHNOLOGY PLC

ANNUAL REPORT & ACCOUNTS 2002

Contents

Highlights

For the year ended 31 March 2002,
(comparatives for the 35 week trading period from 24 July 2000 to 31 March 2001):

Financial Highlights

- Turnover £158.1 million, (2001: £122.4 million)
- Gross profit £22.3 million, (2001: £15.5 million)
- Earnings before interest, tax, amortisation and impairment were £0.8 million loss, (2001: £3.8 million profit), generated by SSS trading profit of £8.8 million
- Investment in staff and resources strengthens InTechnology's position for the future
- After its first full year of trading, the Online Data Services division now has £22.0 million of contracts, generating £7.0 million of recurring revenue per annum
- Under FRS 11, a charge of £73.5 million relating to impairment of goodwill arising on prior year acquisitions has been accounted for. Going forward, this translates to a 50% reduction in annual amortisation charges to £4 million
- Cash reserves remain strong at £23.3 million. Net cash inflow from operating activities was £4.0 million

Operational Highlights

- Sales, technical and support services strengthened to allow InTechnology to gain full benefit from its early advantage in this growing marketplace
- VBAK sales to a number of corporates including Heritage Lottery Fund, Teather & Greenwood Holdings plc, Porsche Cars Great Britain Limited, IMG (UK) Limited, Railtrack plc, ArztPartner AG and Antenne Bayern
- Contracts signed for VBAK Plus, the online storage service InTechnology launched in late autumn 2001 to accommodate businesses with larger data volumes, include Newsplayer Group plc and Metromedia Fiber Network UK Limited
- First contracts signed in Germany
- Formally recognised as IBM's leading storage partner
- New partnership signed with Hewlett Packard
- Exclusive partnership agreement signed with Sun Microsystems
- Digital Subscriber Line ('DSL') based service developed for the small to medium enterprise market

Chairman's statement

I am pleased to report that in the past year, InTechnology plc has achieved creditable sales in difficult market conditions, including meeting our revenue targets in our flagship Online Data Services ('ODS') division. Following further investment in technical infrastructure, the Group is now in a position to exploit the burgeoning European market for online data services and data storage solutions. We obtained our first ODS customers in Germany during the year and are optimistic about the growth prospects of the business.

Turnover in the year ended 31 March 2002 was £158.1 million, compared with £122.4 million in the period last year, giving a gross profit of £22.3 million (2001: £15.5 million). Investment in new technical staff and resources increased salaries and other costs to £19.5 million, which reduced EBITDA to £2.8 million (2001: £5.3 million). Earnings before interest, tax, goodwill amortisation and impairment ('EBITA') were reduced to £0.8 million loss (2001: £3.8 million profit). The Storage Solutions and Services ('SSS') division increased EBITA to £8.8 million, (2001: £7.0 million), increasing both gross and net margins, whilst the ODS division made a £9.6 million loss (2001: £3.2 million loss).

As with many technology companies, reported profits have been impacted by the write-down of goodwill associated with acquisitions in accordance with FRS 11. As a result, there is an exceptional impairment charge of £73.5 million which together with goodwill amortisation and writing off an investment in a small loss making associated undertaking, gave a net loss before tax of £82.5 million (2001: £1.4 million), with cash reserves at £23.3 million (2001: £26.8 million). Net cash inflow from operating activities was £4.0 million (2001: £2.9 million), of which SSS generated £8.4 million (2001: £1.7 million).

The Board's strategy is firstly to leverage the customer base and resources of the established SSS division and to develop online data services yielding high margin recurring revenues. Secondly, through strategic partnerships and a dedicated sales force, to broaden our customer base and to move into new areas of customer opportunity. We are succeeding in both these objectives.

Despite difficult trading conditions, the SSS division has made steady progress through the continued support of our strong network of resellers. Our partnerships with major hardware vendors, IBM, Compaq and Sun, and with leading software vendors, mean that we are supplying best of breed components for all our clients' solutions.

The new partnership with Hewlett Packard has benefits for high-end solutions business through their XP technology.

The ODS division has achieved significant growth and has now signed £22 million of contracts. We have won new contracts for both VBAK and VBAK Plus, our automated, secure back up and archiving services with a number of large corporates including Heritage Lottery Fund, Newsplayer Group plc, Teather & Greenwood Holdings plc, Porsche Cars Great Britain Limited, IMG (UK) Limited and Railtrack plc.

"IDC predicts that there will be a boom in outsourcing as large enterprises look to cut their costs."

IDC Bulletin October 2001

"The worldwide storage management software market is going to be worth $16.7 billion by 2005."

Gartner Dataquest

Expansion in this area of the market is driven partly by the new urgency for disaster recovery provision, of which secure data backup is a key part, and also by increasing corporate requirements, under pressure from shareholders, insurers and industry bodies, to provide for the security and integrity of business data.

Early sales of our new VBAK Plus service, which backs-up higher data volumes of between 1 and 10 terabytes, have been encouraging. In addition, we have seen a growing numbers of contracts for the Advanced Infrastructure Provision service, which caters for clients seeking to outsource their infrastructure to our data centres.

Our German subsidiary, InTechnology AG, based in Munich is now well established and has made significant early progress with the VBAK service. A number of contracts have been signed and we have high expectations for this operation and for wider penetration of the European market in the future.

We have also grown revenues from consultancy and training services. These have been generated by InTechnology's highly skilled technical storage specialists, whose expertise and authority underpins the work of both the SSS and ODS divisions of the Group. Data storage expertise is highly valued in the IT industry and this value added service is one of InTechnology's major commercial strengths.

I would also like to welcome Charles Cameron to the Board. He joins InTechnology as CEO where he will be responsible for the day-to-day running of the Group and strategy implementation. This will enable Peter Wilkinson, who becomes Executive Chairman, to focus on InTechnology's technological and strategic development. In turn, I will become non-Executive President of the Group and will continue to chair the Board of Directors. All appointments become effective on 1 July 2002.

I am constantly impressed by the skills, energy and enthusiasm of all the InTechnology staff and, on behalf of the Board, would like to thank them for their commitment to the Group. The Group also owes a great deal to the vision and entrepreneurial skills of Peter Wilkinson and to his dedicated management team.

I look forward to the year ahead and to continuing the progress of the past year.

The Rt. Hon. Lord Parkinson
Non-Executive Chairman
11 June 2002

Chief Executive's report

I am delighted with the Group's performance over the last year and in particular the growth achieved by our Online Data Services division. This was achieved in a difficult and unpredictable year for our markets and sets a precedent for the future.

The past year has brought into sharp focus the rapidly growing requirement in the corporate world for secure data backup, data recovery provision and data storage – areas in which InTechnology is an unrivalled technical authority and leading player in the UK.

Our energies throughout the year have been focused on aligning our sales, technical and support services with the needs of this rapidly growing marketplace to ensure that we derive full benefit from our early advantage.

Storage Solutions and Services ('SSS')

During the year, InTechnology achieved sales in SSS of £154.0 million (2001: £120.3 million), including software sales of £13.4 million (2001: £6.7 million), consultancy and services sales of £6.3 million (2001: £3.3 million).

The supply of data storage solutions to end-user customers through InTechnology's channel partners has proved to be a robust business that has performed well, despite the difficult market conditions of the past year.

Most enterprises that we have spoken to are expecting their storage capacity to double every year and I therefore anticipate a continued trend of strong growth in sales by this division.

We were pleased to see InTechnology's authority in this market place being recognised this year by a number of endorsements from our key vendor partners.

We were formally recognised as the leading IBM Storage Partner by being awarded the "EMEA Storage Partner of the Year" and "Northern Region Value-Added Distributor of the Year". InTechnology was also selected to be IBM's only Total Storage Training Partner in the UK.

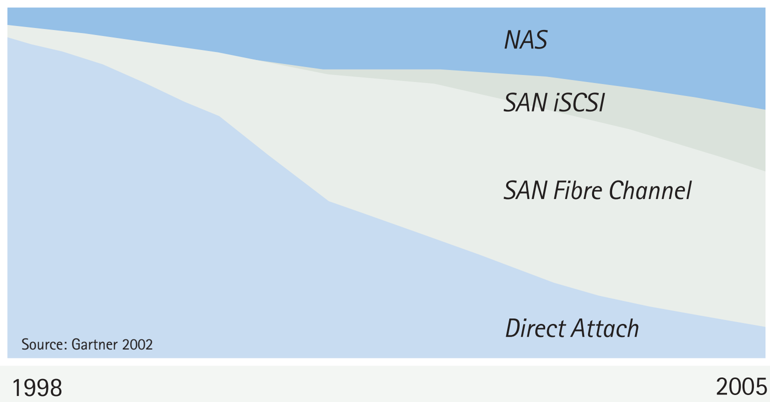
Partnerships with Compaq and Hewlett Packard strengthened throughout the year and we are extremely excited about the merger between these parties, which will considerably increase our potential market size. We anticipate considerable further development in this area.

Sun Microsystems, an existing vendor partner, announced an exclusive distribution agreement with InTechnology and VERITAS software.

The storage market continues to increase in sophistication with market acceptance of complex technologies such as SAN ('Storage Area Network'), NAS ('Network Attached Storage') and storage management tools. The levels of expertise we have place us in a unique position in this market.

SAN Adoption Rate

SAN and NAS will dominate the enterprise storage space by 2005 (0.8 probability)



Software

We have now set up a specialist team to handle this growing and profitable area of business and new partnerships were developed with software providers including Computer Associates, CNT, Datacore, Emulex and Falconstor.

Consultancy and training

Throughout the year, we have invested in and expanded our team of highly specialised technical consultants, in order to generate a revenue stream from services to clients, as well as supporting data storage solutions.

E-commerce

We have begun to utilise our website as a further means of business generation. It is being developed as a powerful marketing and communications tool and in the past year we have introduced a new e-commerce facility that encourages reseller partners to purchase rapidly and easily online.

Online Data Services ('ODS')

We are extremely pleased with the performance of our ODS division, which, after its first full trading year has now signed £22 million of contracts, generating £7 million of recurring revenues per annum.

Our aim now is to maximize these recurring revenues by continuing to grow our client base in this market. As such, major investments have been made in technical staff and infrastructure to expand this division and facilitate business growth.

Additional data centre space has been acquired in London and re-fitted to the highest security specification for clients to store data offsite. Operations are available 24 hours a day, 365 days a year at both the Harrogate and London data centres.

VBAK

Over the last year, clients from both the public and private sector have signed contracts for VBAK, InTechnology's service which automatically backs-up, encrypts and securely transmits data via a private leased line to our data centre. As the problems associated with traditional manual back-up become increasingly apparent, there is growing acceptance that VBAK is a faster, superior and more cost effective service and demand continues to increase across a wide variety of sectors and industries.

VBAK sales are also being assisted by the implementation of disaster recovery strategies, as well as increasing pressures for data protection.

"Storage networking will dominate European external storage sales in 2005 with 68% of the market."

IDC December 2001

Chief Executive's report continued

VBAK Plus

In order to accommodate larger data volumes, VBAK Plus was launched in late autumn 2001. It provides a data backup service for enterprises with 1 – 10 terabytes of data and has achieved contracts with Newsplayer Group plc and Metromedia Fiber Network UK Limited. It offers higher recurring revenues in return for our investment in high bandwidth communications and data centre space.

Advanced Infrastructure Provision ('AIP')

We are experiencing growth in this area of business from clients seeking to outsource their infrastructure to our data centres.

InTechnology is Europe's first advanced infrastructure provider, offering its reseller partners a managed infrastructure of networked data centres to allow them to deliver value-added services to their customers.

For example, Hamilton Rentals plc, the UK's leading IT hardware rental company, is working in conjunction with InTechnology to offer short term hosting capability, branded Rental On-line. This new service gives businesses the opportunity to offer e-commerce without facing the high initial costs of funding a dedicated IT resource and infrastructure.

Hosted by InTechnology, Rental On-line offers a quality service that will build customer confidence in new e-commerce sites.

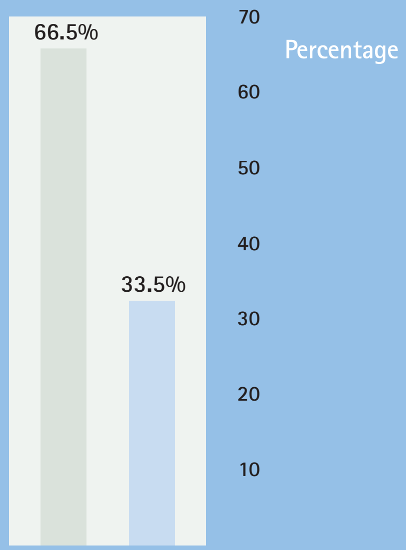
New Products

In our quest to innovate and deliver cutting edge solutions to customers and to explore new markets for growth, our development team is nearing completion of a new version of VBAK that utilises Digital Subscriber Line ('DSL') technology and is aimed at the small to medium enterprise market. This is a large sector that we believe would be extremely receptive to a cost effective and secure service.

We are also achieving early sales interest in Managed Storage Services ('MSS'), which allows customers to outsource their data storage management to InTechnology, either on a SAN on the client site or at our data centre.

Selecting Storage for Existing Systems

Two thirds of CIOs would choose a storage solution on merit, regardless of host server, for storage-only strategies



Choose on merit regardless of server

Same manufacturer as host server

Source: Market Understanding 2001

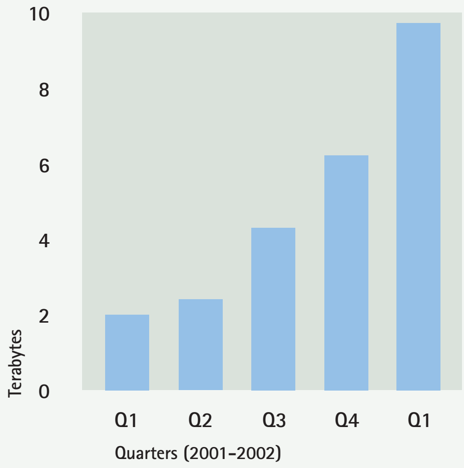
"Definition: A Storage Service Provider (SSP) provides a wide variety of storage-related infrastructure and management service offerings, from backup and recovery to capacity provisioning to broad-scope storage management. SSPs may also deliver storage professional services including assessment, design, operations and management services."

Gartner 2001

"Many enterprises do not have the physical and human resources to provide best-practice storage operations and are looking to SSPs instead."

Gartner 2001

Amount of Data Managed via VBAK

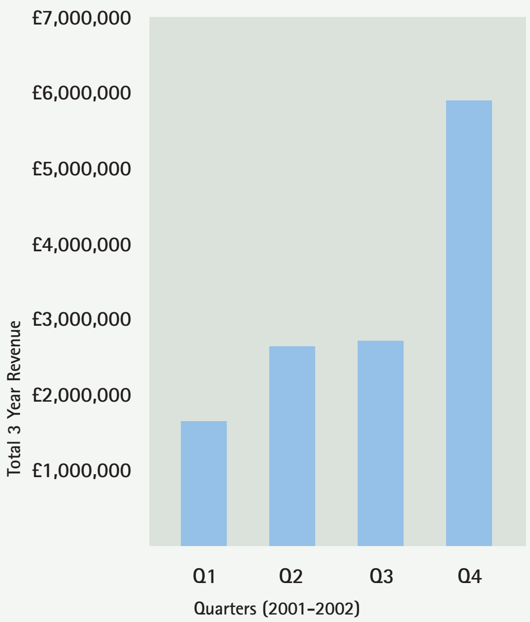


Europe

Having established a footprint in Germany, our aim now is to expand our online data services across Europe. There are an estimated 2 million IT networks in the European marketplace and it is our objective to supply services to at least 5% of these. With our first contracts now signed in Germany and a healthy pipeline of business building, we look forward to making significant progress.

Quarterly Order Growth

ODS 3 Year Value of Contracts Signed by Quarter 2001/2002



Outlook

We believe our continued growth, our ongoing product innovation and development and our dominant position in the market for data storage and online data services put InTechnology in a strong position for the future.

With the investment that has been made in the past year and the encouraging sales performance, the Board plans for continued SSS profit growth and increased ODS recurring revenue streams which will move the Group into overall profitability.

Staff

Once again, I would like to record my thanks to our workforce for their contribution in the past year. For our sales people particularly it has been a difficult time and the achievement of sales targets is testimony to their enterprise and energy.

Peter Wilkinson
Chief Executive Officer
11 June 2002

Financial review

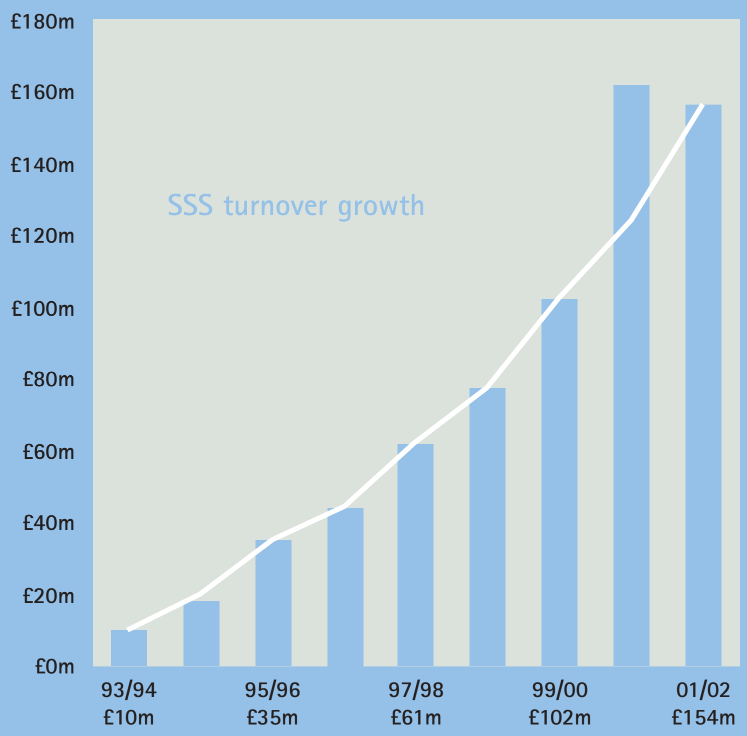
This year's Annual Report and Accounts incorporate the results for the year ended 31 March 2002. Prior year financial information is presented for the period from incorporation of InTechnology plc on 26 January 2000 to 31 March 2001. However, InTechnology did not trade until the acquisition of STORM and VData on 24 July 2000 and the results of these businesses are consolidated from that date. The table below compares this year's results against the unaudited proforma turnover and EBITA for the twelve months to 31 March 2001:

All general and administration costs are apportioned on a consistent basis over both periods.

	Turnover			EBITA		
	2002 £m	2001 £m	+/(-) £m	2002 £m	2001 £m	+/(-) £m
SSS	154.0	162.8	(8.8)	8.8	8.0	0.8
ODS	4.1	2.1	2.0	(9.6)	(3.2)	(6.4)
	158.1	164.9	(6.8)	(0.8)	4.8	(5.6)
Central costs				–	(0.2)	0.2
Associate company				(0.4)	(0.1)	(0.3)
Total operating (loss)/profit before interest and goodwill charges				(1.2)	4.5	(5.7)

SSS

The UK storage products division has grown organically since it was originally founded in 1983. The graph opposite charting turnover growth for the nine years ended 31 March 2002 demonstrates past performance. The strategy is to keep growing turnover and more importantly profits and positive cash flow to help fund growth in the ODS division.



ODS

ODS operating losses increased to £9.6 million for the year ended 31 March 2002, from £3.2 million for the year ended 31 March 2001, (unaudited proforma), reflecting the high upfront service support costs and ongoing development costs that are invested prior to volume sales being achieved. In addition, the German operation only commenced in the last quarter of FY2001 and became fully staffed in the last financial year.

Our objective is to reach financial EBITA breakeven on a monthly basis during the year to 31 March 2003 in the UK. Thereafter, increasing recurring service revenues will result in operating margins well in excess of the current healthy margins in the SSS division.

Much capital expenditure in the ODS division is incurred for IT plant attributable to customer contracts. It is fully depreciated over three years, the standard minimum term of the sale contract.

Associate Company

During the year the Group incurred losses and a subsequent write-down in the carrying value of its investment in eGreenhouse Limited, which was placed in voluntary administration on 3 October 2001. InTechnology has no other associate company investments.

Goodwill

In accordance with FRS 11 we evaluated the carrying value of the goodwill that arose following the acquisitions of VData Limited (now ODS division) and Holf Technologies Limited (now SSS division). No impairment write down was necessary for the latter but there is a £73.5 million write down of the goodwill that arose from the VData Limited acquisition. The consequence of this impairment write down is that goodwill amortisation in future years reduces from £8 million to £4 million per annum.

Taxation

The tax charge on the loss on ordinary activities of £82.5 million arises because goodwill amortisation and impairment are not taxable deductions.

We have also adopted FRS 19, 'Deferred taxation', in the year which, as explained in note 17, creates a prior year adjustment and deferred tax asset of £0.2 million.

Cash flow and liquidity

The cash generative nature of our underlying business is evidenced by a net cash inflow from operating activities of £4.0 million, (2001: £2.9 million).

Of this, the SSS division provided a net cash inflow of £8.4 million, (2001: £1.7 million), achieving its strategic objective of part funding the growth of the ODS division until it attains profitability and a positive cash flow.

Cash at bank and in hand at the year end was £23.3 million, (2001: £26.8 million), which together with potential additional financing facilities for capital expenditure of up to £33 million and positive SSS cash flows should finance the future growth of ODS.

Financial instruments

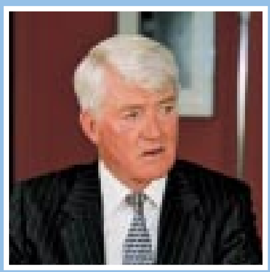
The Group's policy is that no trading in financial instruments is undertaken. The Group's financial instruments comprise borrowings, cash and liquid resources and various items that arise directly from its operations. The main risks arising from these are interest rate risk and liquidity risk and as European expansion occurs, the Group will become exposed to foreign currency risk. All these risks are continually assessed and at present are considered minimal.

Summary

InTechnology remains in an excellent position to finance the planned growth into computer data storage services in Europe, which the Directors believe will result in high margin earnings from an increasing recurring revenue stream.

Andrew Kaberry
Finance Director
11 June 2002

Management team

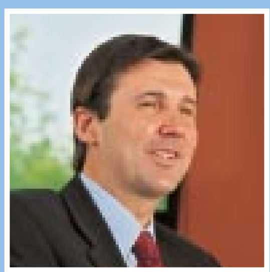


The Rt. Hon. Lord Parkinson
Non-Executive Chairman (70)
(Non-Executive President with effect from 1 July 2002)

Lord Parkinson is a Member of the House of Lords and was a Member of Parliament from 1970 to 1992, during which time he held a number of senior ministerial positions including Secretary of State for Trade and Industry, Energy and Transport. He was Chairman of the Conservative Party from 1981 to 1983 and again from 1997 to 1998. A qualified chartered accountant, Lord Parkinson was a Partner in Westwake Price (City Chartered Accountants) for 10 years and is currently Chairman and Director of a number of companies including Jarvis Group Limited, Huntswood plc and Le Carbone UK Group of Companies.

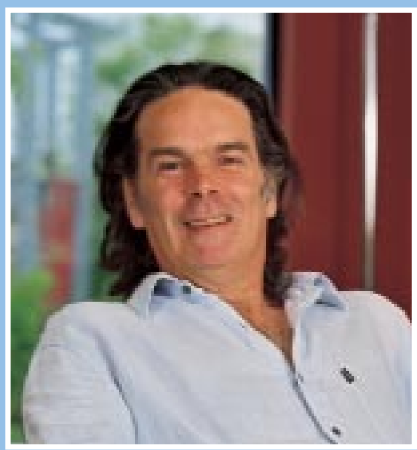
Steve Pearce
Chief Operating Officer (43)

Steve Pearce was Divisional Sales Director for VData and was previously Divisional Sales Director for Planet Online Limited and STORM. He has previous experience with a number of companies in the technology sector including Digital Equipment Corporation Ltd, Data General UK Limited and Radius Software Ltd.



Peter Wilkinson
Chief Executive Officer (48)
(Executive Chairman with effect from 1 July 2002)

Peter Wilkinson was the founder and Managing Director of STORM and VData. In 1995 he founded Planet Online Limited and launched Planetfootball.com in 1997, which he retained when Planet Online Limited was sold to Energis plc in 1998. Planetfootball.com was later acquired by Sports Internet Group plc and subsequently sold to BSkyB plc.



Andrew Kaberry
Finance Director (55)

Andrew Kaberry was Finance Director of both STORM and VData and has worked with Peter Wilkinson since 1984. He has significant experience of the computer industry and was Finance Director of Planet Online Limited. Andrew qualified as a chartered accountant with KPMG in 1972.

Charles Cameron
Chief Executive Officer (40), with effect from 1 July 2002

Charles Cameron was until recently an Executive Director in the Investment Banking division of Goldman Sachs. Prior to this, he was a Corporate Finance Director at Kleinwort Benson where he founded its Technology Advisory team. He has extensive experience in advising quoted companies and assisting with their growth, both organically and via acquisition.

John Swingewood
Chief Technical Officer (47)

John Swingewood joined the Board in May 2001 as a Director and Chief Technical Officer. He was previously Director of New Media at BskyB plc and has also held positions at BT plc as Director of Internet and Multimedia and General Manager of Broadcast TV Business.

Joe McNally
Non-Executive Director (59)

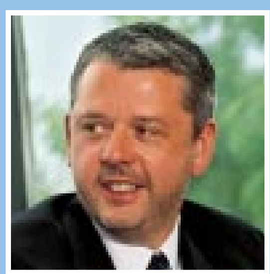
Joe McNally was appointed to the Board in December 2000 as a non-Executive Director. He founded Compaq UK and Ireland in 1984 and was latterly appointed Chairman, before retiring in August 2001. Previously he was Chief Executive of FMC Harris plc.

Richard James
Director & Company Secretary (41)

Richard James qualified as a solicitor with Allen & Overy in 1986 and was a Partner at Pinsent Curtis in 1991, before moving to Hammond Suddards as a Partner in 1996. After advising Peter Wilkinson on the acquisition of Planetfootball.com by Sports Internet Group plc, Richard was appointed as Managing Director of Planetfootball.com and Company Secretary of Sports Internet Group plc. Richard was appointed to the Board of InTechnology in September 2000 as a Director and Company Secretary.

Bryn Sage
Sales Director (36)

Bryn Sage has spent his career in the data storage arena beginning as an apprentice engineer in Systime Computers in 1981. In 1986 he joined STORM as an Engineer and progressed through the company to the position of Sales Director in 1994.



Charles Scott
Non-Executive Director (53)

Charles Scott joined the Board in April 2001 as a non-Executive Director. A qualified chartered accountant, he is currently Chairman of Cordiant Communications Group plc and holds non-executive directorships with a number of other companies including adidas-Salomon AG and William Hill plc.

Products & services review

InTechnology is widely acknowledged as a centre of excellence in the field of data storage, and along with its expertise in SAN ('Storage Area Networks') and NAS ('Network Attached Storage'), it also provides solutions in the relatively new areas of virtualisation and replication.

As a provider of online data services to clients, InTechnology has led the field in delivering a commercially viable means of outsourcing data storage and data protection by offering a complete portfolio of managed services. InTechnology's online VBAK service for data backup and restore is now used by a large number of organisations in the private and public sectors and new services introduced this year have significantly extended this reach.

Growing markets

The markets in which InTechnology operates are set to grow dramatically in the years ahead.

*The European storage services market is set to reach $10 billion by the end of 2005. Higher-value services such as consulting and outsourcing are forecast to grow at over 10% a year.

*IDC 21 January 2002

The data explosion, due to the internet, e-mail and data protection legislation, means that data management has become a fundamental issue for companies and this means a much greater focus on the means of handling data revolving around storage hardware, software and management.

Concerns for security and data protection are especially strong in driving businesses in the UK to upgrade their data backup and data storage processes.

Although data storage is becoming central to IT strategy in most UK businesses, in this growing market there is a shortage of the skills required to specify, implement and manage storage solutions.

It is within the context of this specialist and fast-growing market that InTechnology sees the opportunities for its products and services.

InTechnology's position as a lead player in this market has been reinforced in the past year with increasing investment in expert technical teams, high bandwidth communications links and secure data centre infrastructure.

InTechnology's range of products and services has been expanded to meet increasing demand from organisations for secure and scalable storage of their vital business data.

Storage Solutions and Services ('SSS')

The SSS division of the business has developed its partnerships in the past year with leading hardware vendors – IBM, Sun, Compaq and most recently Hewlett Packard – to provide storage solutions for end-user clients through an established network of reseller partners.

Despite generally difficult market conditions in the IT sector, creditable sales have been achieved.

There has been increasing focus on the role that software plays in storage solutions and InTechnology has set up a new division to grow this area of the business, increasing the number of leading software partners providing best of breed solutions.

"The three-year total cost of ownership of storage is 5 times the initial investment. One administrator can manage 300GB of distributed storage."

Computer Associates / IDC

The Group has increased the number of technical consultants whose skills play an important part in designing and integrating storage solutions and who help clients to manage their storage solutions by running extensive training programmes. The InTechnology Professional Services team, contribute not only to work in the SSS division but also support the Online Data Services division.

Online Data Services ('ODS')

The past year has seen significant development in this area of InTechnology's business.

The VBAK solution for automated backup of data has found a ready market among major private and public sector organisations and is increasingly the solution of choice for enterprises seeking to assure the integrity and security of their data into the future.

From the base VBAK solution, new technological developments have led to the creation of the VBAK Plus solution. This offers a similar set of benefits to clients with larger-scale and more complex data backup requirements.

An Aggregated VBAK service has also been introduced for partners to offer to their own clients who may not have enough data to warrant the full service. This has led to the development of VBAK Lite, a low cost entry version that will be sold through specialist partners who in turn will sell to the smaller company market place.

Advanced Infrastructure Provision

InTechnology provide secure Hosting Services and related infrastructure for clients who wish to outsource this aspect of their operation, enabling them to focus more on their own core business.

In conjunction with Hewlett Packard, Managed Storage Services are a further development in InTechnology's ODS services portfolio. Storage experts within InTechnology take responsibility for management of a client's SAN, located either locally or within an InTechnology data centre.

"Backup and recovery services are the most likely storage utility services to be purchased by corporate data centres."

Gartner 2001

Case studies

VBAK

The Royal College prescribes VBAK

Faced with rapid increases in its confidential administrative, academic, and professional data, the Royal College of Physicians has acquired the secure automated data backup service, VBAK, from InTechnology.

For over 450 years the Royal College of Physicians ('RCP') has played a pivotal role in maintaining standards of medical practice in hospitals in England, Wales and Northern Ireland, with the aim of assuring quality care for patients. With 12,000 members and fellows, RCP runs a thriving conference centre and residence at its prestigious London headquarters and has extensive regional and international links in the medical world - it has over 80,000 contacts on its database. Security is a key issue as the College records on its system the personal achievements of all members, holds details of medical research programmes and examinations in medicine.

"VBAK provides a data backup solution which is scalable and will grow with us," explains Network Manager Richard Green. "The alternative for us was to invest heavily in more backup hardware and media, knowing that in the near future we would have to scrap it all and invest again as our data volumes increased. We would also have had to invest further in fireproof storage for the backup tapes."

"VBAK has given us a lot more security – data is now backed up, encrypted and automatically transferred offsite via a private leased line to a secure InTechnology data centre every day," explains Richard. "The security of our data is crucial to our existence."

"Because of its compression technology, VBAK backs up a huge amount of data in a very small time," said Richard. "Data restores were a particular problem before – if one of our users lost a file it used to take us 30 minutes to find it and restore it – now it is 30 seconds. The IT team have a lot of demands on their time and now that VBAK has taken away all the hassle of backup, they have more time for other work."

"When we took into account all the costs of backup to tape, we found we were spending considerably more than we thought; there is an initial installation cost with VBAK but after that it evens out, as the administration is all handled at the InTechnology data centre."

VBAK Plus

Technical partnership secures the news

The news pictures that define a generation and mark the turning points in the history of the last 100 years are all held on film and video – Newsplayer Group plc provides these rich resources online to customers around the world through technical support from InTechnology.

Newsplayer Group plc has acquired licences for film and television coverage of major news events, sport, music and natural history – this vast digital resource of video and film is stored in an InTechnology data centre where its security and integrity is assured and from where it can be streamed to clients, rapidly on demand.

As well as storage and hosting, InTechnology provides a high-capacity, robust and reliable communications link to stream Newsplayer film and video to the main internet "backbone" from which it is fed to clients around the world.

"It's very important to us to be dealing with a really good company we can rely on. We know that there are not going to be any technology problems," says Newsplayer Managing Director Sandy Markwick.

"Our material is very valuable to us; the security at the InTechnology data centre and the quality of infrastructure there gives us comfort. As our web servers are located with InTechnology and we have confidence in their communications links to the wider global network, we know that our customers can access newsplayer.com wherever they are."

"We need to have continuity of service for our subscribers and it became apparent that InTechnology could offer a better service than any alternative providers," he explains. "When you are building properties online, the support service has to be fundamentally robust."

In a world market where confidence in new online services is critical, quality and continuity of services to customers is vital to Newsplayer's development. InTechnology underpins Newsplayer's services with the highest values in quality and security of technical infrastructure and communications.

"From a commercial point of view, we are confident that our business will expand over the next few years," explains Sandy Markwick. "InTechnology as a partner can help us with the process of rolling out new products in that context."

InTechnology provides newsplayer.com with Hosting Services that provide a secure data centre environment and VBAK Plus that provides backup and archiving of large quantities of data.

VBAK Aggregated Service

Faultless backup in the City

With security dominating the IT agenda in the City of London, InTechnology have partnered with Computers in the City ('CitC') in order to make the VBAK service a viable and cost effective solution for faultless data backup for companies of all sizes.

With the VBAK service, data is backed up on an automated basis every day, encrypted and transferred via a private leased line to a secure InTechnology data centre so that it is safely stored and always available.

CitC has integrated the VBAK service into their Disaster Recovery / Internet Redistribution Site in order to offer their clients an aggregated version. By sharing the service, companies with smaller volumes of data are able to benefit from the technology and security that InTechnology offer, but at a fraction of the cost.

"Information technology is the 'nervous system' of our clients. It is absolutely critical to minimise the impact of any disruption to systems and be functional again very quickly," says Simon Betts, Business Development Manager at CitC. "VBAK offers greatly improved restoration times, far superior data security and integrity and removes the time-consuming and inconsistent elements so inherent in traditional tape-based backup methods. For these reasons, clients find VBAK to be a very attractive proposition."

For example, leading City stockbrokers, Teather & Greenwood Holdings plc ('T&G') have opted to use the VBAK service. With the growth of the Company in recent years, T&G have had to respond to additional data protection requirements. CitC recommended the purchase of VBAK in order to gain a secure and resilient backup system, underpinned by a high-quality infrastructure, at modest cost.

"Our entire business is based on reputation and we need to be able to respond to our clients requirements," says Nikk Burridge, IT Manager at T&G. "We rely on the quality of our data and with VBAK, data is backed up and stored safely offsite. The manual tape backup previously in place was not resilient or reliable enough for us."

As is the case with T&G, VBAK can form part of a business continuity strategy, whereby in the event of a disaster the latest version of data can be easily restored to allow business to continue with as little disruption as possible.

Simon Betts of CitC is aware that many of his high-profile 'boutique' investment clients have the same need for faultless backup and is offering both the full and aggregated versions of VBAK as part of his portfolio of services.

Advanced Infrastructure Provision

Hosting Services - Values to Rely On

E-commerce solutions created for major banks and financial institutions by TechnoPhobia Limited are notable not only for their exuberant design but also for their robust performance. Their high technical, service and security values are underpinned by the Hosting Services of InTechnology.

"In an industry renowned for poor service, we pride ourselves on delivering a responsive, reliable, client focused solution, with resilience, security and 24/7 availability, all backed by a mutual service level agreement," explains Pip Thorne, Company Director of TechnoPhobia.

The robust, ongoing support of Hosting Services has allowed TechnoPhobia not only to run successful websites for major clients but, has also given them the flexibility to act swiftly to help new clients in difficulties – TechnoPhobia has successfully migrated a rescue package for a leading building society customer.

TechnoPhobia's clients have been impressed by the quality of infrastructure provided – for example, the data centre has been successfully audited by major banking clients' Information Security Managers.

"Quality of service is the absolutely key issue in our business and for this reason we are delighted to have the partnership of InTechnology," confirms Pip Thorne.

TechnoPhobia is a leading provider of internet technology, security, design, consultancy and solutions. Innovative solutions have been developed for leading clients such as The Co-operative Bank plc and Bradford and Bingley plc. TechnoPhobia also support client websites with hosting services, maintenance and call centre services as required.

With scalable support from Hosting Services at InTechnology, the Company is able to offer flexible services to clients.

"Managed solutions are tailored to meet current requirements, reinforced by pro-active support ensuring the solution is scalable and flexible enough to meet client needs as their business changes and develops," explains Pip Thorne.

Directors' report

The Directors present their annual report and audited financial statements of the Company and the Group for the year ended 31 March 2002.

Principal activities

InTechnology is a specialist advanced data technology company, at the forefront of a major new development in the IT marketplace. The Group provides services and products via channel partners for data storage and deployment, data management and protection through its wide-area private network infrastructure.

Review of the business and future developments

Details of the past year's performance and the outlook for the current financial year are provided in the Chairman's statement and the Chief Executive's report on pages 2 to 7.

Dividends

The Directors do not recommend the payment of a dividend in respect of the year ended 31 March 2002. The Company currently intends to reinvest future earnings to finance the growth of the business.

Charitable and political donations

The contributions made by the Group during the year for charitable purposes totalled £18,600, (2001: £16,692). The Group made no political contributions, (2001: £nil).

Directors

The Directors of the Company during the year ended 31 March 2002 were:

Non-Executive Directors

The Rt. Hon. Lord Parkinson

Joseph McNally

Charles Scott
Appointed 2 April 2001

Executive Directors

Peter Wilkinson

Andrew Kaberry

Richard James

Steve Pearce

Bryn Sage

John Swingewood
Appointed 15 May 2001

In addition, Charles Cameron will be appointed as an Executive Director with effect from 1 July 2002.

Re-election of Directors

The Articles of Association of the Company require that all Directors whose appointments have not been approved by shareholders of the Company in General Meeting must retire and, if eligible, offer themselves for re-appointment.

Accordingly, Charles Cameron will retire at the forthcoming AGM and, being eligible, offer himself for reappointment.

In accordance with the Articles of Association of the Company, one-third of the Directors will retire by rotation. Accordingly, Peter Wilkinson, Andrew Kaberry and Richard James will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

All Directors must be re-elected at intervals of not more than three years in accordance with the provisions of the Combined Code of Corporate Governance.

Directors' remuneration and interests

The Remuneration report is set out on pages 20 to 22. It includes details of Directors' remuneration, interests in the shares of the Company, share options and pension arrangements. The Company's Register of Directors' Interests, which is open to inspection at the Company's registered office, contains full details of Directors' shareholdings and options to subscribe for shares.

The Board's Corporate Governance report, including the Directors' statement on responsibilities for the preparation of financial statements, is set out on pages 18 and 19.

Details of related party transactions involving Directors of the Company are given in note 27 to the financial statements.

Substantial shareholdings

At 11 June 2002, the Company had received notification that the following are interested in more than 3 per cent of the issued ordinary share capital of the Company:

	Percentage of shares held
Peter Wilkinson	56.77
Jupiter Asset Management Limited	8.91
Jon Wood	7.62
Andrew Kaberry	7.15
Steve Pearce	3.58

Going concern

Under company law, the Directors are required to consider whether it is appropriate to prepare financial statements on the basis that the

Company and Group are going concerns. As part of its normal business practice, budgets, cash flow forecasts and longer term financial projections are prepared and in reviewing this information, the Directors are satisfied that the Company and the Group have adequate resources to enable them to continue in business for the foreseeable future. The Directors have therefore adopted the going concern basis in the preparation of the financial statements.

Employees

The Group places considerable value on the involvement of its employees and has continued its practice of keeping them informed of matters affecting them as employees and the various factors affecting the performance of the Group.

The Directors recognise that continued and sustained improvement in the performance of the Group depends on its ability to attract, motivate and retain employees of the highest calibre. Furthermore, the Directors believe that the Group's ability to sustain a competitive advantage over the long term depends in a large part on ensuring that all employees contribute to the maximum of their potential. The Group is committed to improving the performance of all employees through development and training.

The Group is an equal opportunity employer. The Group's policies seek to promote an environment free from discrimination, harassment and victimisation and to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, age, race, colour, nationality or national origin, disability or sexual orientation or is disadvantaged by conditions or requirements, which cannot objectively be justified. Entry into, and progression within the Group, is solely determined on the basis of work criteria and individual merit.

Research and development

The Group continues to undertake research and development of new products with the objective of increasing future profitability. The cost to the Group is charged to the profit and loss account as incurred.

Policy and practice on payment of creditors

It is the Group's policy to agree terms and conditions for its business transactions with its suppliers. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

Average creditor days for the year ended 31 March 2002 was 41 days, (period ended 31 March 2001: 46 days).

Share schemes

Share ownership is at the heart of the Group's remuneration philosophy and the Directors believe that the key to the Group's future success lies in a motivated workforce holding a stake in the Company. The schemes are described in the Board's Remuneration report and the details of the options granted under the schemes are set out in note 18 to the financial statements. All permanent employees are eligible to join the schemes.

Environment

The Group recognises the importance of environmental responsibility. The nature of its activities has a minimal effect on the environment but where they do, the Group acts responsibly and is aware of its obligations at all times.

Annual General Meeting

The next AGM of the Company will be held on 7 August 2002. Details of the business to be proposed at the AGM are contained within the Notice of Meeting, which is set out on pages 45 and 46.

Independent auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution proposing that they be reappointed as independent auditors and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Richard James
Company Secretary
11 June 2002

Corporate governance

Principles of Corporate Governance

The Board recognises the value of good corporate governance as a positive contribution to the well being of the business and believes in applying these principles, (including those set out in Section 1 of the Principles of Good Governance and Code of Best Practice 'the Combined Code' published by the London Stock Exchange in June 1998), in a sensible and pragmatic manner.

Peter Wilkinson, as majority shareholder in the Company, has signed an agreement undertaking that he will not seek to influence the Board by reason of his shareholding.

Further progress has been made as the Group continues to assess the effectiveness of Corporate Governance and internal control.

Board of Directors

The Board of Directors consists of nine members, including a non-Executive Chairman and two other non-Executive Directors.

The roles of Chairman and Chief Executive are separated and clearly defined. The activities of the Group are controlled by the Board, which meets throughout the year. There is a formal schedule of matters specifically reserved for the full Board's decision, together with a policy enabling Directors to take independent advice in the furtherance of their duties at the Group's expense. The Board programme is designed so that Directors have regular opportunity to consider the Group's strategy, policies, budgets, progress reports and financial position and to arrive at a balanced assessment of the Group's position and prospects.

The Board are assisted by the Company Secretary, who provides a point of reference and regular support for all Directors and senior managers. He has responsibility for ensuring that Board procedures are followed, for establishing the Group's corporate governance policies and for assisting the Board in facilitating compliance by the Company with its legal obligations.

The Board has appointed two standing committees, which are as follows:

The Audit Committee

Comprises the two non-Executive Directors and the non-Executive Chairman and is chaired by Lord Parkinson. Its duties include a comprehensive review of the annual and interim financial statements before they are presented to the Board for approval. The Audit Committee meets at least twice a year to review the findings of the external auditors, key accounting policies and judgements. It has unrestricted access to the Company's auditors.

The Remuneration Committee

Comprises the two non-Executive Directors and the non-Executive Chairman and is chaired by Joe McNally. It meets at least once a year and is responsible for making recommendations to the Board on remuneration policy for Executive Directors and for setting salaries, incentive payments and share options granted.

Relations with shareholders

The Company seeks to ensure that all shareholders are kept informed about the Company and its activities. A comprehensive annual report and accounts and an interim report are sent to shareholders and there is frequent dialogue with institutional investors, including presentations following the preliminary and interim announcements.

The Annual General Meeting is a forum for shareholders' participation with the opportunity to meet and question Board members, including the non-Executive Chairman and the Chairmen of the Board committees.

Internal control

The Board of Directors acknowledges its overall responsibility for the Company's systems of internal control and for monitoring their effectiveness. The Board has control over strategic, financial and compliance issues and has introduced a structure of responsibility with appropriate levels of authority. The Board as a whole has continued to annually review the effectiveness of the Company's systems of internal control.

The Company's Directors and varying levels of management have clear responsibilities in ensuring that the control environment operates efficiently. Clear lines of responsibility are developed through the Company's organisation structure. Ethical policies are communicated through all forms of personnel training and via appropriate procedures, establishing a code of ethics.

Although no system of internal control can provide absolute assurance against material misstatement or loss, the Company's systems are designed to provide reasonable assurance that problems are identified on a timely basis and are dealt with appropriately. The principal features of the Company's internal financial control structures can be summarised as follows:

a. Preparation of budgets and forecasts approved by the Board.

b. Monthly management accounts, showing comparisons of actual results against budget and prior year results, are reviewed by the Board. Variances from budget are thoroughly investigated. Where lapses in internal control are detected, these are rectified.

c. The Company's cash flow is also monitored monthly compared to forecast.

d. The Board authorises capital expenditure where this is significant.

In the light of the Turnbull Committee guidance published in September 1999, the Board has continued to enhance its risk control programme, in particular, those elements which relate to ensuring that risk reviews are formally embedded in control systems rather than being the subject of formal annual reviews.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year.

The Directors confirm that suitable accounting policies have been used and with the exception of the adoption of FRS 19 'Deferred taxation', applied consistently as explained on pages 28 and 29 under the heading "Accounting policies". They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 March 2002, that applicable accounting policies have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The maintenance and integrity of the InTechnology website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

Richard James
Company Secretary
11 June 2002

Remuneration report

The remuneration committee comprises the non-Executive Directors:

Joseph McNally (Chairman)

The Rt. Hon. Lord Parkinson

Charles Scott

Directors' remuneration

Remuneration of non-Executive Directors

The remuneration of the non-Executive Directors is determined by the Board, with the assistance of independent advice concerning comparable organisations and appointments. The non-Executive Directors do not take part in discussions on their remuneration.

Neither the non-Executive Chairman nor the other non-Executive Directors received any pension or other benefits from the Group, nor did they participate in any of the bonus schemes.

The non-Executive Chairman and Directors have interests in share options as disclosed on page 22.

Remuneration of Executive Directors

The main aim of the Company's Executive pay policy is to secure the skills and experience needed to meet its strategic business objectives. Furthermore, the Company aims to align the interests of all employees as closely as possible with the interests of shareholders through share-based incentives.

The Company's remuneration committee decides the remuneration policy that applies to Executive Directors. In setting the policy it considers a number of factors including:

a. The basic salaries and benefits available to Executive Directors of comparable companies.

b. The need to attract and retain Directors of an appropriate calibre.

c. The need to ensure Executive Directors' commitment to the continued success of the Group by means of incentive schemes.

The Company's remuneration policy is to:

a. Have regard to the Directors' experience and the nature and complexity of their work in order to pay a competitive salary that attracts and retains management of the highest quality.

b. Link individual remuneration packages to the Group's long term performance through the award of share options and incentive schemes.

c. Provide post retirement benefits through defined contribution pension schemes.

d. Provide employment-related benefits including the provision of a company car, (or car allowance), fuel, medical and life insurance and insurance relating to the Directors' duties.

Salaries

The remuneration committee meets at least once a year in order to consider and set the annual salaries for Executive Directors, having regard to the needs of the Company, individual responsibilities, personal performance and independently compiled salary survey information.

Pensions

The Executive Directors are members of defined contribution pension schemes, the assets of which are held independently of the Company. The amounts contributed by the Company, (based on salaries excluding bonuses), were £44,272, (2001: £30,128). The Company does not provide any other post-retirement benefits to the Directors.

Contracts of service

The Executive Directors have contracts of service that can be terminated by the company with the following notice periods:

Peter Wilkinson	12 months
Andrew Kaberry	6 months
Richard James	12 months
Steve Pearce	6 months
Bryn Sage	6 months
John Swingewood	12 months

With the exception of the contracts with Richard James and John Swingewood, if the Company terminates the contract by notice but other than on giving full notice, the contracts of service provide for the payment of a fixed amount equal to the salary and other contractual benefits for the unexpired portion of the appointment or entitlement to notice, as the case may be.

Non-Executive Directorships

The remuneration committee believes that the Group can benefit from Executive Directors accepting appointments as non-Executives directors of other companies. The Director concerned may retain any fees related to such employment.

Directors' emoluments

The remuneration of the Directors of the Company were as follows:

			Year ended 31 March 2002			Period ended 31 March 2001
	Salary	Bonus	Benefits in kind	Pension contributions	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Executive Directors						
Peter Wilkinson	200	–	25	14	239	163
Richard James	142	20	5	–	167	83
Andrew Kaberry	150	–	26	12	188	129
Steve Pearce	110	3	15	6	134	89
Bryn Sage	100	69	15	5	189	118
John Swingewood	138	50	12	7	207	–
Philip Taysom	–	–	–	–	–	162
	840	142	98	44	1,124	744
	Fees	Bonus	Benefits in kind	Pension contributions	Total	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Non-Executive Directors						
The Rt. Hon. Lord Parkinson	45	–	–	–	45	28
Joseph McNally	20	–	–	–	20	5
Charles Scott	15	–	–	–	15	–
David von Simson	3	–	–	–	3	8
	83	–	–	–	83	41
Total	923	142	98	44	1,207	785

Benefits in kind include the provision of a company car, fuel, medical, life insurance and insurance relating to the Directors' duties.

Remuneration report continued

Directors' interests

Interests in shares

The interests of the Directors as at 31 March 2002 and 31 March 2001 in the shares of the Company were:

	Shares
Peter Wilkinson	79,403,998
Andrew Kaberry	9,879,562
Steve Pearce	4,939,781
	94,223,341

Apart from the interests disclosed above, none of the other Directors of the Company at 31 March 2002 were interested at any time in the year in the share capital of the Company or other Group companies.

On 11 June 2002, Peter Wilkinson sold 1,000,000 shares in the Company to John Swingewood. Following the sale, Peter Wilkinson owns 78,403,998 shares, (56.8%), and John Swingewood 1,000,000 shares, (0.7%).

There have been no other changes in Directors' shareholdings since 31 March 2002.

Interests in share options

The following share schemes were in place at the year end:

Rolled over HOLF granted 23/12/99 at 43.3 pence per share.

Rolled over VData granted 7/01/00 at 1.8 pence per share.

Options granted directly by InTechnology plc at varying dates and prices. Further details are provided in note 18.

Set out below are details of share options that have been granted to Executive and non-Executive Directors:

Executive Directors	No. of share options 31 March 2002	No. of share options 31 March 2001	Exercise price (p)	Earliest exercise date	Expiry date
Richard James	400,000	400,000	150.0	01/09/03	01/04/11
Andrew Kaberry	1,596,399	1,596,399	43.3	23/12/02	23/12/09
Bryn Sage	798,200	798,200	43.3	23/12/02	23/12/09
Bryn Sage	443,769	443,769	1.8	07/01/03	07/01/10
John Swingewood	500,000	-	279.0	01/05/04	01/05/11
Non-Executive Directors					
Lord Parkinson	221,885	221,885	1.8	07/01/03	07/01/10
Lord Parkinson	203,178	203,178	43.3	23/12/02	23/12/09
Joe McNally	50,000	50,000	337.5	01/11/03	01/11/10
Charles Scott	50,000	50,000	327.5	02/01/04	02/01/11

On 11 June 2002, John Swingewood was granted an additional 500,000 options at 65 pence, with an earliest exercise date of 11 June 2005 and an expiry date of 11 June 2012.

No other Directors have been granted or exercised options since 31 March 2002.

Joe McNally
Non-Executive Director
11 June 2002

Independent auditors' report to the members of InTechnology plc

For the year ended 31 March 2002

We have audited the financial statements which comprise the consolidated profit and loss account, consolidated statement of total recognised gains and losses, balance sheets, consolidated cash flow statement, the statement of accounting policies and the related notes.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, Chief Executive's report, the Financial review, the Directors' report, the Corporate Governance statement and the Remuneration report.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2002 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Leeds
11 June 2002

Consolidated profit & loss account

For the year ended 31 March 2002

	Note	Year ended 31 March 2002 £'000	Period ended 31 March 2001 Restated £'000
Turnover	1 & 2	**158,108**	122,398
Cost of sales		**(135,853)**	(106,873)
Gross profit		**22,255**	15,525
Administrative expenses		**(104,574)**	(17,179)
EBITDA		**2,848**	5,259
Depreciation		**(3,679)**	(1,437)
Amortisation of goodwill		**(7,995)**	(5,476)
Exceptional goodwill impairment charge	3	**(73,493)**	–
Group operating loss		**(82,319)**	(1,654)
Share of operating loss of associate		**(353)**	(106)
Total operating loss		**(82,672)**	(1,760)
Net interest receivable	4	**178**	358
Loss on ordinary activities before taxation	2 & 5	**(82,494)**	(1,402)
Tax on loss on ordinary activities	6	**(678)**	(1,173)
Loss sustained for the year	19	**(83,172)**	(2,575)
Loss per share (pence)	8		
Basic		**(60.23)**	(3.05)
Diluted		**(53.65)**	(2.78)
Adjusted (loss)/earnings per share (pence)	8		
Basic		**(0.96)**	3.56
Diluted		**(0.86)**	3.25

EBITDA comprises earnings before interest, taxation, depreciation, goodwill impairment and amortisation.

There is no difference between the loss on ordinary activities before tax and the loss sustained for either period and their historical cost equivalents.

Consolidated statement of total recognised gains and losses

For the year ended 31 March 2002

	Year ended 31 March 2002 £'000	Period ended 31 March 2001 Restated £'000
Loss sustained for the year	(83,172)	(2,575)
Exchange adjustments offset in reserves	(16)	-
Total recognised losses relating to the year	(83,188)	(2,575)
Prior year adjustment (see note 19)	239	
Total recognised losses since last annual report	(82,949)	

Reconciliation of movements in Group shareholders' funds

For the year ended 31 March 2002

	Note	Year ended 31 March 2002 £'000	Period ended 31 March 2001 Restated £'000
Loss sustained for the year	19	(83,172)	(2,575)
Other recognised losses relating to the year	19	(16)	-
Nominal value of ordinary share capital issued	19	1	1,380
Premium on ordinary share capital issued	19	43	188,348
Non-equity share capital issued	19	-	480
Net change in shareholders' funds		(83,144)	187,633
Opening shareholders' funds (previously £187,394,000 before adding a prior year adjustment of £239,000)	19	187,633	-
Closing shareholders' funds	19	104,489	187,633

Balance sheets

As at 31 March 2002

		Group		Company	
		2002	2001 Restated	2002	2001 Restated
	Note	£'000	£'000	£'000	£'000
Fixed assets					
Intangible assets	9	**72,944**	154,432	**73,224**	-
Tangible assets	10	**11,811**	8,541	**11,440**	8,515
Investment in subsidiary undertakings	11	**-**	-	**9,677**	165,972
Investment in associate	11	**-**	353	**-**	459
		84,755	163,326	**94,341**	174,946
Current assets					
Stock	12	**11,448**	9,213	**11,448**	9,213
Debtors					
- due after more than one year	13	**-**	-	**1,842**	1,565
- due within one year	13	**40,720**	38,712	**40,652**	38,705
		40,720	38,712	**42,494**	40,270
Cash at bank and in hand	20	**23,319**	26,809	**22,665**	26,523
		75,487	74,734	**76,607**	76,006
Creditors – amounts falling due within one year	14	**(48,584)**	(42,628)	**(48,457)**	(42,492)
Net current assets		**26,903**	32,106	**28,150**	33,514
Total assets less current liabilities		**111,658**	195,432	**122,491**	208,460
Creditors – amounts falling due after more than one year	15	**(7,169)**	(7,799)	**(15,679)**	(16,309)
Net assets		**104,489**	187,633	**106,812**	192,151
Capital and reserves					
Called up share capital					
- equity	18 & 19	**1,381**	1,380	**1,381**	1,380
- non-equity	18 & 19	**480**	480	**480**	480
Share premium account	19	**188,391**	188,348	**188,391**	188,348
Profit and loss account	19	**(85,763)**	(2,575)	**(83,440)**	1,943
Shareholders' funds (including non-equity interests)	19	**104,489**	187,633	**106,812**	192,151
Shareholders' funds comprise:					
Equity interests		**102,249**	185,393	**104,572**	189,911
Non-equity interests		**2,240**	2,240	**2,240**	2,240
		104,489	187,633	**106,812**	192,151

The financial statements on pages 24 to 44 were approved by the Board of Directors on 11 June 2002 and were signed on its behalf by:

Andrew Kaberry
Finance Director

Consolidated cash flow statement

For the year ended 31 March 2002

	Note	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000
Net cash inflow from operating activities	21	4,047	2,923
Returns on investments and servicing of finance			
Interest received		786	886
Interest element of finance lease payments		(3)	–
Interest paid		(605)	(528)
Net cash inflow from returns on investments and servicing of finance		178	358
Taxation paid		(1,490)	(1,376)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(5,308)	(2,987)
Sale of tangible fixed assets		117	15
Net cash outflow from capital expenditure and financial investment		(5,191)	(2,972)
Acquisitions			
Purchase of subsidiary undertakings (including costs)		–	(10,332)
Net cash at bank acquired with purchase of subsidiary undertakings		–	4,473
Investment in associated undertaking		–	(384)
Net cash outflow for acquisitions		–	(6,243)
Net cash outflow before financing		(2,456)	(7,310)
Management of liquid resources			
Decrease/(increase) in short term deposits with financial institutions	20	5,000	(15,000)
Financing			
Issue of ordinary share capital	19	44	36,470
Expenses of share issue		–	(1,592)
Repayment of secured loans		(1,021)	(759)
Capital element of finance lease payments		(57)	–
Net cash (outflow)/inflow from financing		(1,034)	34,119
Increase in cash in the year	22	1,510	11,809

Accounting policies

The Directors have performed a review of the Group's accounting policies in accordance with FRS 18 'Accounting policies'. This review did not result in any changes in accounting policies because the Directors concluded that the accounting policies adopted by the Group are the most appropriate for its circumstances.

The adoption of FRS 19 'Deferred taxation' represented a change in accounting policy and comparative figures have been re-stated accordingly. Further details are given in note 19.

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the main accounting policies, which, except for FRS 19, have been applied consistently, is set out below.

Basis of accounting

The financial statements have been prepared in accordance with the historical cost convention.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings up to 31 March. The results of subsidiaries acquired are included in the consolidated profit and loss account from the date on which control passes. Intra-group sales and profits are eliminated fully on consolidation.

On acquisition of a subsidiary, its assets and liabilities that exist at the date of acquisition are recorded at their fair values. All gains and losses that arise after the group has gained control of the subsidiary are included in the post acquisition profit and loss account.

Goodwill

Goodwill arising on consolidation represents the excess of the fair value of the consideration paid over the fair value of the identifiable net assets acquired and is amortised through the profit and loss account over its useful economic life. The Directors have assessed the estimated useful economic life of goodwill at 20 years from date of acquisition based on the strengths of the underlying businesses and projected future market growth. The Directors review the level of goodwill for impairment at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write-off the cost of tangible fixed assets less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned. The principal annual rates used for this purpose are:

Freehold buildings - 2%
Leasehold improvements - 20%
Office fixtures and fittings - 25% to 50%
Vehicles and computer equipment - 25% to 50%
Freehold land is not depreciated

The Directors review tangible fixed assets for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Provisions are made for obsolete, slow-moving and defective items where appropriate.

Revenue recognition

Revenue on the outright sale of equipment and software is recognised on invoice at the time of despatch. Service revenues are recognised over the period to which the service relates.

Unrecognised service revenue is included as deferred income in the balance sheet.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Profits and losses of overseas subsidiary undertakings are translated into sterling at the rates of exchange ruling at the balance sheet date.

The exchange difference arising on the re-translation of the opening net assets and profits and losses incurred are taken directly to reserves.

Monetary assets and liabilities denominated in foreign currencies are translated to sterling at the exchange rates ruling at the balance sheet date.

Lease agreements

Finance lease arrangements, which transfer to the Group substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of finance leases is shown as obligations under finance leases. The finance lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the profit and loss account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the useful lives of equivalent owned assets.

Costs in respect of operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Deferred taxation

Full provision is made for deferred taxation resulting from timing differences between profits computed for taxation purposes and profits stated in the financial statements to the extent that there is an obligation to pay more tax in the future as a result of the reversal of those timing differences.

Deferred tax assets are recognised to the extent they are expected to be recoverable.

Research and development

Research and development expenditure is written off to the profit and loss account as incurred.

Pension costs

The Company operates a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the Company. The annual contributions payable are charged to the profit and loss account. The Company provides no other post-retirement benefits to its employees.

Share schemes

The Group grants share options to employees on a discretionary basis. The scheme is 'un-approved' and all employees have agreed in writing to accept liability for any National Insurance contributions that become due on exercise of options.

Notes to the financial statements

For the year ended 31 March 2002

1 Trading period

Prior year financial information is presented for the period from incorporation of InTechnology plc on 26 January 2000 to 31 March 2001. However, InTechnology did not trade until the acquisition of STORM and VData on 24 July 2000 and the results of these businesses are consolidated from that date.

2 Segmental information

	Turnover by destination		Turnover by source		Loss before tax by source	
	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000
Geographical analysis						
United Kingdom	**157,151**	122,159	**158,095**	122,398	**(80,522)**	(1,416)
Continental Europe	**941**	226	**13**	–	**(1,797)**	(238)
North America	**16**	13	**–**	–	**–**	–
	158,108	122,398	**158,108**	122,398	**(82,319)**	(1,654)
Share of operating loss of associate – United Kingdom					**(353)**	(106)
Net interest receivable					**178**	358
Total					**(82,494)**	(1,402)

	Turnover		(Loss)/profit before tax: Before goodwill amortisation and impairment charge		(Loss)/profit before tax: After goodwill amortisation and impairment charge	
	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000
Business analysis						
SSS	**154,013**	120,348	**8,823**	6,978	**7,123**	5,813
ODS	**4,095**	2,050	**(9,654)**	(3,156)	**(89,442)**	(7,467)
	158,108	122,398	**(831)**	3,822	**(82,319)**	(1,654)
Share of operating loss of associate			**(353)**	(106)	**(353)**	(106)
Net interest receivable			**178**	358	**178**	358
Total			**(1,006)**	4,074	**(82,494)**	(1,402)

Notes to the financial statements continued

For the year ended 31 March 2002

2 Segmental information continued

	Including goodwill 2002 £'000	Including goodwill 2001 Restated £'000	Excluding goodwill 2002 £'000	Excluding goodwill 2001 Restated £'000
Net assets				
Geographical analysis				
United Kingdom	**103,911**	187,560	**30,967**	33,128
Continental Europe	**578**	73	**578**	73
	104,489	187,633	**31,545**	33,201
Total				
Group	**104,489**	187,280	**31,545**	32,848
Associate	**–**	353	**–**	353
	104,489	187,633	**31,545**	33,201
Business analysis				
SSS	**33,940**	61,934	**2,798**	29,398
ODS	**47,230**	126,381	**5,428**	4,485
	81,170	188,315	**8,226**	33,883
Central	**–**	(27,491)	**–**	(27,491)
Cash	**23,319**	26,809	**23,319**	26,809
	104,489	187,633	**31,545**	33,201
Total				
Group	**104,489**	187,280	**31,545**	32,848
Associate	**–**	353	**–**	353
	104,489	187,633	**31,545**	33,201

Prior year central assets included stock of £535,000, debtors of £898,000 and creditors of £28,924,000, which were not analysed by business unit.

3 Exceptional goodwill impairment charge

The Board has conducted an impairment review of the carrying value of goodwill arising on acquisition of HOLF Technologies Limited and VData Limited 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 goodwill impairment arises in respect of VData Limited, the cost of capital used being 21.3%. 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 £73,493,000, and accordingly an impairment charge of this amount has been made in the profit and loss account for the year ended 31 March 2002.

4 Net interest receivable

	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000
Interest payable on bank loans and overdrafts	**(45)**	(17)
Interest payable on other loans	**(560)**	(511)
Interest payable on finance leases	**(3)**	–
	(608)	(528)
Interest receivable	**786**	886
Net interest receivable	**178**	358

5 Loss on ordinary activities before tax

	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000
Loss before tax is stated after charging/(crediting):		
Staff costs (note 25)	10,324	5,970
Depreciation of owned tangible fixed assets	3,609	1,437
Depreciation of leased tangible fixed assets	70	–
Amortisation of goodwill	7,995	5,476
Exceptional goodwill impairment charge	73,493	–
Other operating lease rentals	2,216	799
Auditors' remuneration – audit (Company: £48,000)	58	67
Auditors' remuneration – non-audit (Company: £7,000)	10	34
Loss/(profit) on disposal of tangible fixed assets	31	(8)

6 Tax on loss on ordinary activities

	Year ended 31 March 2002 £'000	Period ended 31 March 2001 Restated £'000
Tax charge comprises:		
United Kingdom corporation tax at 30% (2001: 30%)		
– current	(599)	(1,412)
– deferred	(9)	239
Under provision in respect of prior years	(70)	–
	(678)	(1,173)

The taxation charge has been calculated by applying the Directors' best estimate of the effective tax rate for the year, which is 30%, (2001: 30%), to the Company's profit, before the write-off of investment, goodwill impairment and amortisation for the year.

The tax charge on profits before goodwill amortisation and the exceptional goodwill impairment charge is higher, (2001 lower), than the standard rate of corporation tax in the UK. The differences are explained below:

	Year ended 31 March 2002 £'000	Period ended 31 March 2001 Restated £'000
Loss on ordinary activities before taxation	(82,494)	(1,402)
Amortisation of goodwill	7,995	5,476
Exceptional goodwill impairment charge	73,493	–
	(1,006)	4,074
At standard rate of corporation tax of 30% (2001: 30%)	(302)	1,222
Effects of:		
Other expenses not deductible for tax purposes	168	140
Adjustment to tax charge in respect of previous periods	70	–
Capital allowances for period in excess of depreciation	55	114
Overseas tax rates/losses not used	539	186
Prior year adjustment	–	(239)
Other	148	(250)
	678	1,173

7 Profit of the holding company

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the Company is not presented in these financial statements. The parent Company's loss for the year ended 31 March 2002 was £85,383,000, (2001 Restated: profit of £1,943,000).

8 (Loss)/earnings per share

Basic loss per share is calculated by dividing the loss attributable to ordinary shareholders of £83,172,000, (2001: £2,575,000), by the weighted average number of ordinary shares in issue during the year of 138,089,272, (2001: 84,459,355).

The adjusted loss per share has been calculated to provide a better understanding of the underlying performance of the Group. The calculation is based on the loss after taxation after adding back amortisation of goodwill of £7,995,000, (2001: £5,476,000), exceptional goodwill impairment charge of £73,493,000, (2001: £nil), and share of operating loss of the Group's associate, eGreenhouse Limited, (which ceased trading in the year), of £353,000, (2001: £106,000).

For diluted loss per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares.

The weighted average number of shares in issue during the year may be reconciled to the number used in the diluted earnings per share calculation as follows:

Weighted average number of shares	Year ended 31 March 2002 Number	Period ended 31 March 2001 Number
In issue during the year	**138,089,272**	84,459,355
Issuable on conversion of outstanding options	**16,943,946**	8,203,386
Used in diluted earnings per share calculation	**155,033,218**	92,662,741

9 Intangible fixed assets

	Goodwill £'000
Group	
Cost	
At 1 April 2001	159,908
At 31 March 2002	**159,908**
Amortisation	
At 1 April 2001	5,476
Charge for the year	7,995
Impairment provision (note 3)	73,493
At 31 March 2002	**86,964**
Net book amount at 31 March 2002	**72,944**
Net book amount at 31 March 2001	154,432

	Goodwill £'000
Company	
Cost	
At 1 April 2001	–
Transfer from fixed asset investments	158,613
At 31 March 2002	**158,613**
Amortisation	
At 1 April 2001	–
Charge for the year	11,896
Impairment provision (note 3)	73,493
At 31 March 2002	**85,389**
Net book amount at 31 March 2002	**73,224**
Net book amount at 31 March 2001	–

10 Tangible fixed assets

	Land and buildings £'000	Leasehold improvements £'000	Office fixtures & fittings £'000	Vehicles and computer equipment £'000	Total £'000
Group					
Cost					
At 1 April 2001	2,498	1,106	927	7,164	11,695
Additions	874	299	442	5,442	7,057
Disposals	(1)	–	(7)	(333)	(341)
At 31 March 2002	**3,371**	**1,405**	**1,362**	**12,273**	**18,411**
Accumulated depreciation					
At 1 April 2001	63	149	395	2,547	3,154
Charge for the year	125	237	292	3,025	3,679
Disposals	–	–	(1)	(232)	(233)
At 31 March 2002	**188**	**386**	**686**	**5,340**	**6,600**
Net book amount at 31 March 2002	**3,183**	**1,019**	**676**	**6,933**	**11,811**
Net book amount at 31 March 2001	2,435	957	532	4,617	8,541

	Land and buildings £'000	Leasehold improvements £'000	Office fixtures & fittings £'000	Vehicles and computer equipment £'000	Total £'000
Company					
Cost					
At 1 April 2001	2,498	1,106	927	7,139	11,670
Additions at cost	874	299	424	4,974	6,571
Disposals	(1)	–	(7)	(333)	(341)
At 31 March 2002	**3,371**	**1,405**	**1,344**	**11,780**	**17,900**
Accumulated depreciation					
At 1 April 2001	63	149	395	2,548	3,155
Charge for the year	125	237	287	2,889	3,538
Disposals	–	–	(1)	(232)	(233)
At 31 March 2002	**188**	**386**	**681**	**5,205**	**6,460**
Net book amount at 31 March 2002	**3,183**	**1,019**	**663**	**6,575**	**11,440**
Net book amount at 31 March 2001	2,435	957	532	4,591	8,515

Analysis of net book amount of land and buildings

	Group and Company 2002 £'000	2001 £'000
Freehold land	1,213	340
Freehold buildings	1,970	2,095
	3,183	2,435

The net book amount of Group and Company tangible assets includes an amount of £804,000, (2001: £nil), in respect of assets held under finance leases.

Notes to the financial statements continued

For the year ended 31 March 2002

11 Investments

	Group £'000	Company £'000
Shares in group undertaking		
At 1 April 2001	–	165,972
Additional investment in subsidiary undertaking	–	2,318
Transfer to intangible fixed assets	–	(158,613)
At 31 March 2002	**–**	**9,677**

	Group £'000	Company £'000
Shares in associated undertaking		
At 1 April 2001	353	459
Write-down in carrying value of associated undertaking	(353)	(459)
At 31 March 2002	**–**	**–**

Investments in group undertakings are stated at cost.

The share of the operating loss of associate represents the losses incurred and subsequent write-down in carrying value of the Group's 30.6% investment in eGreenhouse Limited. The Company was placed in voluntary liquidation on 3 October 2001.

Details of the principal investments at 31 March 2002 in which the Group or Company holds more than 20% of the nominal value of ordinary share capital are as follows:

Subsidiary undertakings	Country of incorporation or registration	Nature of business	Proportion held
InTechnology AG	Germany	Computer services	100%
HOLF Technologies Limited	England	Dormant	100%
VData Limited	England	Dormant	100%
Integrated Technology (Europe) Limited	England	Dormant	100%

12 Stocks

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Goods for re-sale	**11,448**	9,213	**11,448**	9,213

13 Debtors

	Group 2002 £'000	Group 2001 Restated £'000	Company 2002 £'000	Company 2001 Restated £'000
Amounts falling due after more than one year:				
Amounts owed by group undertakings	**–**	–	**1,842**	1,565
Amounts falling due within one year:				
Trade debtors	**31,925**	32,516	**31,903**	32,513
Other debtors	**6,079**	3,407	**6,080**	3,407
Deferred tax (see note 17)	**230**	239	**230**	239
Prepayments and accrued income	**2,486**	2,550	**2,439**	2,546
	40,720	38,712	**40,652**	38,705
Total	**40,720**	38,712	**42,494**	40,270

14 Creditors – amounts falling due within one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Bank and other borrowings	**2,199**	1,112	**2,199**	1,112
Obligations under finance leases	**507**	–	**507**	–
Trade creditors	**38,859**	33,805	**38,845**	33,776
Corporation tax	**640**	1,452	**640**	1,452
Other taxation and social security	**2,714**	2,517	**2,699**	2,502
Other creditors	**453**	428	**451**	395
Accruals and deferred income	**3,212**	3,314	**3,116**	3,255
	48,584	42,628	**48,457**	42,492

15 Creditors – amounts falling due after more than one year

	Group 2002 £'000	Group 2001 £'000	Company 2002 £'000	Company 2001 £'000
Other loans	**5,738**	7,799	**5,738**	7,799
Obligations under finance leases	**1,185**	–	**1,185**	–
Trade creditors	**246**	–	**246**	–
Amounts owed to group undertakings	**–**	–	**8,510**	8,510
	7,169	7,799	**15,679**	16,309

Other loans comprise loans due after more than one year which were provided by IBM United Kingdom Financial Services Limited and are secured by fixed and floating charges over the assets of the Company dated 11 September 2000.

15 Creditors – amounts falling due after more than one year continued

Bank and other loans are repayable as follows:

	Group and Company Bank and other borrowings		Group and Company Finance leases	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
In one year or less	**2,199**	1,112	**507**	–
Between one and two years	**5,738**	2,062	**631**	–
Between two and five years	**–**	5,737	**554**	–
	7,937	8,911	**1,692**	–

16 Financial instruments

The main financial risks faced by the Group include interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks. The Group currently has very little exposure to currency risk.

The Group's financial instruments comprise cash, liquid resources and various items, such as debtors and creditors that arise directly from its operations. It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken. Similarly, the Group did not undertake any financial hedging arrangements during the year under review. The year end position reflects these policies and there have been no changes in policies or risks since the year end.

The Group has net cash reserves and therefore has limited interest rate exposure. Group policy is to continue to monitor financial markets and to repay outstanding loans in line with agreed repayment schedules.

Financial asset returns are maximised by ongoing review of the Group's cash flow requirements. Any funds surplus to short-term working capital requirements are placed on interest bearing deposit, (2002: £10 million, 2001: £15 million).

Liquidity risk is further managed by agreeing separate borrowing facilities for any additional working capital and investment requirements. In accordance with this policy, the Group has negotiated an invoice discounting facility of £2.5 million with IBM, which was unused as at 31 March 2002. This facility is provided on a rolling basis and is subject to 60 days notice by either party.

Short term trade debtors and creditors have been excluded from all the following disclosures.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group is as follows:

	Floating rate 2002 £'000	Floating rate 2001 £'000
Currency		
Sterling	**22,665**	26,522
Deutschemark	**–**	287
Euro	**654**	–
	23,319	26,809

The financial assets relate to cash at bank and bear interest based on LIBOR. There are no fixed rate financial assets, (2001: £nil).

16 Financial instruments continued

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group is as follows:

	2002 £'000	2001 £'000
Currency – sterling		
Floating rate bank and other borrowings	**7,937**	8,911
Fixed rate finance leases	**1,692**	–
Total	**9,629**	8,911
Weighted average fixed interest rate	**6.64%**	–
Weighted average period for which rate is fixed	**3.1 years**	–

Financial liabilities include secured loan arrangements with IBM and finance leases and are detailed in note 15. The loans bear interest by reference to LIBOR and are repayable as set out in note 15.

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available as at 31 March, in respect of which all conditions have been met at that date, were as follows:

	2002 £'000	2001 £'000
Expiring within one year	**2,500**	1,400
Expiring between one and two years	**–**	7,000
	2,500	8,400

Non-equity shares

A proportion of the Group's share capital is attributable to non-equity interests in the form of deferred shares of 1p each. The rights and restrictions attaching to the deferred shares are described in note 18 to the financial statements.

Fair value

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than by a forced or liquidation sale, and excludes accrued interest. The fair value of financial assets and liabilities as at 31 March 2002 approximate to the book value at those dates.

Currency exposure

Gains and losses arising on net investments overseas are not significant. The Group does not consider current levels of overseas trade sufficiently significant to warrant actions to mitigate currency exposure.

Hedges

The Group does not operate any hedging instruments.

17 Deferred tax asset

	Group £'000	Company £'000
At 1 April 2001 as previously reported	–	–
Prior year adjustment (note 19)	239	239
At 1 April 2001 restated	239	239
Charged to the profit and loss account	(9)	(9)
At 31 March 2002	**230**	**230**

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws substantively enacted at the balance sheet dates.

The deferred tax asset is included in debtors.

The analysis of deferred tax assets is as follows:

Group and Company	Amount recognised		Amount not recognised	
	2002 £'000	2001 Restated £'000	2002 £'000	2001 £'000
Accelerated capital allowances	**–**	–	**270**	349
Short term timing differences	**230**	239	**–**	–
Losses carried forward	**–**	–	**892**	891
	230	239	**1,162**	1,240

Based on current capital expenditure plans, the Group does not expect fixed asset timing differences to reverse in the foreseeable future, hence no deferred tax asset has been recognised. In addition, in the light of medium term forecasts prepared, the Group does not at present consider it more likely than not that suitable taxable profits will be available to offset the losses carried forward, hence no deferred tax asset has been recognised. In accordance with FRS 19, the Directors will continue to assess whether deferred tax assets should be recognised in respect of these items.

18 Called up share capital

	Group and Company 2002 £'000	Group and Company 2001 £'000
Authorised		
252,000,000 Ordinary shares of 1p each	**2,520**	2,520
48,000,000 Deferred shares of 1p each	**480**	480
Total	**3,000**	3,000

	2002 £'000	2001 £'000
Allotted, called up and fully paid		
138,101,518 Ordinary shares of 1p each	**1,381**	1,380
48,000,000 Deferred shares of 1p each	**480**	480
Total	**1,861**	1,860

Deferred shares differ to ordinary shares in that they do not entitle the holder to receive any dividend or other distribution; do not entitle the holder to vote at any general meeting of the Company; do entitle the holder on a winding up to repayment of amounts paid only after payment in respect of each Ordinary Share of the capital paid up and a further payment of £10,000 on each Ordinary Share and are treated as non-equity shares.

Share options

Certain employees hold options to subscribe for shares in the Company at prices ranging from 1.8p to 337.5p under the share option schemes. During the year, the Company issued 101,589 shares in respect of employee share options.

The number of shares subject to options, the periods in which they were granted and the periods in which they may be exercised are given below:

Name of scheme	No. of shares 2002	No. of shares 2001	Exercise price (p)	Earliest exercise date	Expiry date
HOLF scheme	7,877,501	8,022,628	43.3	23/12/02	23/12/09
VData scheme	5,425,081	5,425,081	1.8	07/01/03	07/01/10
InTechnology scheme	1,619,000	1,679,000	150.0	24/07/03 – 15/03/04	24/07/10 – 15/03/11
InTechnology scheme	2,341,386	–	172.0	20/12/04	20/12/11
InTechnology scheme	570,000	2,407,386	279.0	15/03/04 – 01/05/04	15/03/11 – 01/05/11
InTechnology scheme	50,000	50,000	327.5	02/01/04	02/01/11
InTechnology scheme	50,000	50,000	337.5	01/11/03	01/11/10
	17,932,968	17,634,095			

Further details of the share option schemes in operation are given under the heading 'Interests in share options' in the Remuneration Report on pages 20 to 22.

19 Shareholders' funds

	Ordinary share capital £'000	Deferred shares £'000	Share premium account £'000	Profit & loss account £'000	Total shareholders' funds £'000
Group					
At 1 April 2001 as previously reported	1,380	480	188,348	(2,814)	187,394
Prior year adjustment – FRS 19	–	–	–	239	239
At 1 April 2001 as restated	1,380	480	188,348	(2,575)	187,633
Issue of shares to satisfy employee share options	1	–	43	–	44
Loss sustained for the year	–	–	–	(83,172)	(83,172)
Exchange adjustments	–	–	–	(16)	(16)
At 31 March 2002	**1,381**	**480**	**188,391**	**(85,763)**	**104,489**

	Ordinary share capital £'000	Deferred shares £'000	Share premium account £'000	Profit & loss account £'000	Total shareholders' funds £'000
Company					
At 1 April 2001 as previously reported	1,380	480	188,348	1,704	191,912
Prior year adjustment – FRS 19	–	–	–	239	239
At 1 April 2001 as restated	1,380	480	188,348	1,943	192,151
Issue of shares to satisfy employee share options	1	–	43	–	44
Loss sustained for the year	–	–	–	(85,383)	(85,383)
At 31 March 2002	**1,381**	**480**	**188,391**	**(83,440)**	**106,812**

Prior year adjustment

The prior year adjustment reflects the adoption of FRS 19, 'Deferred taxation'. FRS 19 requires deferred tax assets to be recognised to the extent that they are expected to be recoverable. Prior to 1 April 2001, the Group's accounting policy for deferred tax was in accordance with SSAP 15, which required deferred tax assets to be recognised only to the extent that they were expected to be recoverable without replacement by any equivalent asset. The recognition of deferred tax assets has been accounted for by way of a prior year adjustment, creating deferred tax assets of £239,000 at 1 April 2001. The implementation of FRS 19 has resulted in an increase of £9,000, (2001: reduction of £239,000), in loss after tax.

20 Cash at bank and in hand

Cash at bank and in hand includes short term deposits with financial institutions amounting to £10,000,000, (2001: £15,000,000), which have a maturity of more than one day but less than three months.

Notes to the financial statements continued

For the year ended 31 March 2002

21 Reconciliation of operating loss to net cash inflow from operating activities

	Group 2002 £'000	Group 2001 £'000
Operating loss	**(82,319)**	(1,654)
Depreciation of tangible fixed assets	**3,679**	1,437
Goodwill amortisation	**7,995**	5,476
Exceptional goodwill impairment charge	**73,493**	–
Loss/(profit) on sale of tangible fixed assets	**31**	(8)
Increase in stocks	**(2,235)**	(180)
Increase in debtors	**(2,017)**	(10,173)
Increase in creditors	**5,420**	8,025
Net cash inflow from operating activities	**4,047**	2,923

22 Reconciliation of movement in net funds

	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000
Increase in cash in the year	**1,510**	11,809
Net cash outflow from decrease in finance leases	**57**	–
(Decrease)/increase in short term deposits	**(5,000)**	15,000
Cash outflow from repayment of debt	**1,021**	759
Change in net funds resulting from cash flows	**(2,412)**	27,568
Non-cash changes:		
Inception of new finance leases	**(1,749)**	–
Other non-cash changes in secured loans	**(47)**	–
Borrowings acquired on purchase of subsidiary undertakings	**–**	(9,670)
Movement in net funds in the year	**(4,208)**	17,898
Net funds at start of year	**17,898**	–
Net funds at end of year	**13,690**	17,898

23 Analysis of net funds

	At 1 April 2001 £'000	Cashflow £'000	Other non-cash changes £'000	At 31 March 2002 £'000
Cash at bank and in hand	11,809	1,510	–	**13,319**
Short term deposits	15,000	(5,000)	–	**10,000**
Finance leases	–	57	(1,749)	**(1,692)**
Debt due after more than one year	(7,799)	–	2,061	**(5,738)**
Debt due within one year	(1,112)	1,021	(2,108)	**(2,199)**
Net funds	17,898	(2,412)	(1,796)	**13,690**

24 Directors' emoluments

A detailed analysis of Directors' individual emoluments, together with information on pensions, including that of the highest paid Director, is given under the headings 'Remuneration of Executive Directors', 'Salaries', 'Pensions' and 'Directors' emoluments', in the Remuneration Report.

	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000
Aggregate emoluments	1,080	639
Company contributions to defined contribution pension schemes	44	30
Compensation paid to past directors for loss of office	–	75
Sums paid to third parties for directors' services	83	41
	1,207	785

During the year, retirement benefits were accruing to all six, (2001: six), Executive Directors under defined contribution pension schemes.

25 Employee information

The average monthly number of persons, (including Executive Directors), employed by the Group during the year was:

By category	Year ended 31 March 2002 Number	Period ended 31 March 2001 Number
Sales	75	60
Technical	52	47
Operations	59	35
Administration	46	41
	232	183

Staff costs for the persons above were:

	Year ended 31 March 2002 £'000	Period ended 31 March 2001 £'000
Wages and salaries	9,135	5,270
Social security costs	1,049	630
Pension costs	140	70
	10,324	5,970

26 Financial commitments

At 31 March 2002 the Group had annual commitments under non-cancellable operating leases as follows:

	Land & buildings		Other assets	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Expiring within one year	**185**	57	**166**	50
Expiring within one to two years	**393**	–	**108**	–
Expiring within two to five years	**783**	1,255	**–**	323
Expiring after five years	**873**	–	**–**	–
	2,234	1,312	**274**	373

27 Related party transactions

The Company has taken advantage of the exemption available under Financial Reporting Standard No 8 Related Party Disclosures from disclosing transactions between the Company and its subsidiary undertakings as these have been eliminated on consolidation of these financial statements.

Mr P.R. Wilkinson is a shareholder in British Sky Broadcasting plc (BSkyB). InTechnology has sold services totalling £166,000, (2001: £123,000), to BSkyB in the year. There were no amounts outstanding at 31 March 2002, (2001: £29,000).

Mr P.R. Wilkinson is a shareholder in the ultimate parent company of Planetfootball.com Limited, BSkyB. InTechnology has sold services totalling £377,000, (2001: £340,000), to Planetfootball.com Limited in the year. As at 31 March 2002, InTechnology was owed £146,000, (2001: £146,000), by Planetfootball.com Limited for rental of premises previously shared with HOLF Technologies Limited and VData Limited.

Mr P.R. Wilkinson is a non-Executive Director of, and Mr P.R. Wilkinson, Mr R.M. James and Mr J.P. Swingewood are shareholders in The New Gadget Shop Limited. InTechnology has sold services totalling £81,000, (2001: £52,000), to The New Gadget Shop Limited in the year. As at 31 March 2002, InTechnology was owed £14,000, (2001: £13,000), by The New Gadget Shop Limited.

Mr R.M. James is a Director and shareholder of, and Mr P.R. Wilkinson and Mr J.P. Swingewood hold beneficial interests in shares in Digital Interactive Television Group Limited. InTechnology has sold services totalling £206,000, (2001: £nil), to Digital Interactive Television Group Limited in the year. As at 31 March 2002, InTechnology was owed £65,000, (2001: £nil), by Digital Interactive Television Group Limited.

Mr P.R. Wilkinson and Mr J.P. Swingewood are Directors and shareholders in Getmedia plc. InTechnology has sold services totalling £25,000, (2001: £nil), to Getmedia plc in the year. As at 31 March 2002, InTechnology was owed £5,000, (2001: £nil), by Getmedia plc.

InTechnology sold services to eGreenhouse Limited, an associated undertaking, totalling £17,000, (2001: £nil). The outstanding debt of £17,000 has been written off in full during the year and there were no amounts outstanding as at 31 March 2002, (2001: £nil).

The Company has maintained current accounts at various stages during the year with Mr P.R. Wilkinson and Mr A.M.S. Kaberry. The maximum amounts owed to the Company under these arrangements were £21,630, (2001: £50,522), and £13,926, (2001: £4,073), respectively. As at 31 March 2002, InTechnology was owed £19,398, (2001: £nil), by Mr P.R. Wilkinson and £3,410, (2001: £nil), by Mr A. M.S. Kaberry. Both amounts were re-paid shortly after the year-end.

28 Ultimate controlling party

The Directors consider Mr P.R. Wilkinson to be the ultimate controlling party by virtue of his controlling interest in the Company.

Notice of Annual General Meeting

The Directors give notice that the Company will hold its Annual General Meeting at Nidderdale House, Beckwith Knowle, Otley Road, Harrogate, HG3 1SA at 11am on 7 August 2002 for the following purposes:

Ordinary business:

Resolution 1

To receive and adopt the report of the Directors, the report of the independent auditors of the Company and the audited accounts for the year ended 31 March 2002.

Resolution 2

To reappoint Peter Wilkinson as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association and who, being eligible, offers himself for re-appointment as a Director.

Resolution 3

To reappoint Andrew Kaberry as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association and who, being eligible, offers himself for re-appointment as a Director.

Resolution 4

To reappoint Richard James as a Director, who retires by rotation in accordance with Article 92 of the Articles of Association and who, being eligible, offers himself for re-appointment as a Director.

Resolution 5

To reappoint Charles Cameron as a Director, who retires in accordance with Article 87 of the Articles of Association and who, being eligible, offers himself for reappointment as a Director.

Resolution 6

To re-appoint PricewaterhouseCoopers as independent auditors of the Company, who shall hold office from the conclusion of the Annual General Meeting to the conclusion of the next meeting at which the Directors lay copies of the annual accounts of the Company, and to authorise the Directors to fix their remuneration.

Special business:

To consider and, if thought fit, to pass the following Resolutions. The Directors will propose Resolution 7 as an ordinary resolution and Resolution 8 as a special resolution.

Resolution 7

That the Directors be and are generally and unconditionally authorised pursuant to section 80 of the Companies Act 1985 (the "Act") to exercise all the powers of the Company to allot relevant securities (within the meaning of section 80 of the Act) up to an aggregate nominal amount of £460,338.39, provided that such authority is for a period expiring 5 years from the date of this Resolution 7, and save that the Company may before such expiry make an offer or agreement which would or might require the Directors to allot relevant securities after such expiry and the Directors may allot relevant securities in pursuance of any such offer or agreement as if the authority which this Resolution 7 confers had not expired. The authority which this Resolution 7 confers shall be in substitution to all subsisting authorisations under section 80 of the Act (to the extent unused) which are hereby revoked.

Resolution 8

That, subject to the passing of Resolution 7, the Directors be and are empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) for cash pursuant to the authority which Resolution 7 confers as if section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:

(a) in connection with any rights issue or other issue in favour of holders of ordinary shares in proportion (as near as maybe) to the respective holdings of such shares, but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in any territory; and

(b) otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £69,050.75,

and shall expire 5 years from the date of this Resolution 8, save that the Company may before such expiry make an offer or agreement which would or might require the Directors to allot equity securities after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power which this Resolution 8 confers had not expired.

11 June 2002

By order of the Board

RM James

Director and Company Secretary

for and on behalf of InTechnology plc

Registered Office:

Nidderdale House

Beckwith Knowle

Otley Road

Harrogate

HG3 1SA

Notes:

Pursuant to Regulations 41(1) and (2) of the Uncertificated Securities Regulations 2001 (2001 S.I. No. 3755), only those members of the Company as at 11.00 a.m. on 5 August 2002 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares which are registered in the register of members of the Company in the name of such members at that time. The Company shall disregard changes to the register of members after 11 a.m. on 5 August 2002 in determining the rights of any person to attend and vote at the Annual General Meeting.

Members of the Company entitled to attend and vote are entitled to appoint 1 or more proxies to attend and, on a poll, to vote instead of them. A proxy need not be a member of the Company. A proxy form is enclosed. For a proxy form to be effective, a member must lodge the proxy form, together with the power of attorney or other authority (if any) under which the proxy form is signed (or a notarially certified copy of such authority), with the registrars of the Company, Capita IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time fixed for the Annual General Meeting. The appointment of a proxy does not preclude a member from attending and voting if he so wishes.

The register of Directors' interests and copies of each of the service contracts of the Directors will be available for inspection during normal business hours at the registered office of the Company from the date of this Notice to the date of the Annual General Meeting and at the place of the Annual General Meeting from 15 minutes before the Annual General Meeting to the conclusion of the Annual General Meeting.

Biographical details of the Directors who are proposed for reappointment at the Annual General Meeting are set out on pages 10 and 11 of the Annual Report and Accounts for the year ended 31 March 2002.

Form of proxy

Form of proxy for use by holders of ordinary shares at the Annual General Meeting of InTechnology plc to be held on Wednesday, 7 August 2002 at 11.00am. Please read the Notice of Annual General Meeting and the explanatory notes at the end of this form of proxy.

I/We(1)

of

being (a) member(s) of InTechnology plc hereby appoint the Chairman of the Annual General Meeting(2)

or

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday, 7 August 2002 at Nidderdale House, Beckwith Knowle, Otley Road, Harrogate HG3 1SA and at every adjournment of the Annual General Meeting.

Dated this day of 2002

Signature(s)

Please indicate with an X in the space below how you wish your votes to be cast. If you do not give any instructions the proxy will abstain or vote as they think fit.

Resolution	For	Against
Ordinary Business		
1. To adopt the Directors' Report and Financial Statements.		
2. To reappoint P Wilkinson as a Director.		
3. To reappoint A Kaberry as a Director.		
4. To reappoint R James as a Director.		
5. To reappoint C Cameron as a Director.		
6. To reappoint PricewaterhouseCoopers as independent auditors and allow the Directors to determine their remuneration.		
Special Business		
To consider the following resolutions.		
7. Ordinary Resolution – That the Directors are authorised to allot relevant securities.		
8. Special Resolution – That statutory pre-emption provisions are disapplied and the Directors are authorised to allot relevant securities for cash.		

1) Fill in your name(s) and address(es) in block capitals.

2) If you prefer to nominate an alternative proxy, please strike out “the Chairman of the Annual General Meeting”, add the name of the alternative proxy (or proxies) and initial the alteration.

Notes

a. To be valid for use at the Annual General Meeting, the form of proxy duly completed must be lodged, together with the power of attorney or other authority (if any) under which the form of proxy is signed (or a notarially certified copy of such authority), with the registrars of the Company, Capita IRG Plc, Bourne House, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, not later than 48 hours before the time fixed for the Annual General Meeting or adjourned Annual General Meeting. A proxy may only vote on a poll.

b. A corporation may execute either under seal or under the hand of an officer or attorney so authorised.

c. In the case of joint holders of shares, any one of such holders may vote but, if 2 or more joint holders are present in person or by proxy, the vote of the senior will be accepted to the exclusion of the votes of the other joint holders. For this purpose seniority is determined by the order in which the names stand in the register of members.

d. A member may appoint as their proxy one or more persons whether members of the Company or not.

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BUSINESS REPLY SERVICE
License No. MB122

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First Fold

Capita IRG plc (Proxies)
PO Box 25
Beckenham
Kent
BR3 4BR

Second Fold

Corporate information

For the year ended 31 March 2002

Board of Directors:

The Rt. Hon. Lord Parkinson	Non-Executive Chairman (Non-Executive President, effective 1 July 2002)
Joseph McNally	Non-Executive Director
Charles Scott	Non-Executive Director
Peter Wilkinson	Chief Executive Officer (Executive Chairman, effective 1 July 2002)
Charles Cameron	Chief Executive Officer (effective 1 July 2002)
Richard James	Director & Company Secretary
Andrew Kaberry	Finance Director
Steve Pearce	Chief Operating Officer
Bryn Sage	Sales Director
John Swingewood	Chief Technical Officer

Registered office & headquarters:

InTechnology plc
Nidderdale House
Beckwith Knowle
Harrogate HG3 1SA
Tel +44 (0)1423 850000
Fax +44 (0)1423 858855

Company registration number:

3916586

Internet address:

www.intechnology.co.uk

Principal offices:

Northern Data Centre
InTechnology plc
Central House
Beckwith Knowle
Harrogate HG3 1UG

Southern Data Centre
InTechnology plc
260-266 Goswell Road
Islington
London EC1V 7EB

London Office
InTechnology plc
1 Threadneedle Street
London EC2R 8BE

German Headquarters
InTechnology AG
Orleansstrasse 2
81669 Munich
Germany

Registrar and transfer office

Capita IRG plc
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Principal bankers

Barclays Bank plc
Parliament Street
York YO1 1XD

Investment bankers

UBS Warburg
1/2 Finsbury Avenue
London EC2M 2PP

Independent auditors

PricewaterhouseCoopers
Benson House
33 Wellington Street
Leeds LS1 4JP

Solicitors

Norton Rose
Kempson House
Camomile Street
London EC3A 7AN