

INCLARITY LIMITED

Company No. 2673204

**DIRECTORS' REPORT &
FINANCIAL STATEMENTS**

For the year ended 31 March 2009

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INCLARITY LIMITED

COMPANY INFORMATION

Directors	A Hughes A Besorai A Rucigaj B Andradi
Secretary	I Evans
Company Number	2673204 (England and Wales)
Registered office	Inclarity Limited 7 th Floor, Olympic Office Centre 8 Fulton Road HA9 0NU
Independent Auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

INCLARITY LIMITED

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

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INCLARITY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2009

The directors present their report and the audited financial statements of the company for the year ended 31 March 2009.

Business review and principal activities

Inclarity Limited ("Inclarity") is a telecommunications and technology provider with two key areas of focus:

- Hosted IP communications to companies in the UK and internationally
- International gateway solutions and minutes wholesaling for telecommunications operators in emerging markets

The results for Inclarity show a pre-tax loss of £2,319,832 (2007/8: £4,401,187) for the year on sales of £17,814,744 (2007/8: £12,202,799). Inclarity has net assets of £364,010 (2007/8: net liabilities £7,722,293). Net cash outflow from operating activities for the year ended 31 March 2009 was £2,198,264 (2007/8: £3,972,363).

During the year £7.0 million of convertible bonds were converted into Preferred A shares and a further £2.6 million of Preferred A shares were issued.

Business environment

Inclarity is a pioneer in the hosted IP communications market. The market is only now emerging, and Inclarity has a leading position within it. Inclarity's leadership is a function of proprietary development with its provisioning and customer interface tools, a stable platform and early mover advantage. Growth rates are difficult to predict given the lack of statistical data, but the general market view is that cost savings offered by hosted IP communications, along with the feature richness and shift towards converged solutions will result in it taking a significant share of the corporate communications market. Contracted users increased from 9,000 to over 14,000 during the year ended 31 March 2009.

The minutes wholesaling and international gateway market is more mature. The global minutes wholesale market is worth many billions of dollars, with major players including BT, C&W, IDT and Verizon. Inclarity has a niche within this market, focussed on emerging markets. While growth in emerging markets communications, such as that in the Middle East and Africa, is significant, winning contracts is difficult from both a process perspective and a competitive perspective. Deals can take time to be won, but once contracted they are significant in scale and tend to be of longer duration, typically over two years. Thereafter there tends to be increased pressure on revenues and margins from competition.

Strategy

Inclarity's overriding objective is to achieve attractive and sustainable rates of growth and returns, predominantly from organic growth but potentially also from acquisitions. The key elements to the company's strategy for growth are:

- Aggressive direct sales and channel acquisition in the hosted IP communications market. The perspective here is to maximise on early mover advantage to gain significant market share.
- Investment in product development of the hosted IP communications service. Inclarity's service has a reputation for being leading edge. It is critical this reputation is retained by continual investment in development.
- Leveraging on contacts and proven expertise to deliver new territories for international gateway and wholesaling of minutes. Inclarity has shown in Iraq that it can fulfil in difficult climates, delivering a service that is proven to work. This reputation allows Inclarity to leverage on contacts into emerging markets to win new deals.

INCLARITY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2009

Research and development

The hosted IP communications service has been created after significant investment in research and development. Inclarity has taken a pioneering role in this market. The R&D team has substantial expertise in software development and VoIP engineering, allowing the company to continue investing in its proprietary platforms and thereby maintain technological market leadership.

Future outlook

Significant growth in the hosted IP communications market is generally accepted by all telecommunications operators. New entrants are emerging rapidly, and there will undoubtedly be pressure on margins and revenues over time. However, the rate of growth of the market suggests that margin pressure is unlikely in the short term. Further, investment in product development will help the company drive average revenue per user and margin over time.

The growth in mobile communications in the emerging world, such as much of Africa, provides significant opportunities for the international gateway and minutes wholesaling business. In the Iraqi market, Inclarity's key market, there has been significant revenue and margin pressure because of increased competition since 2006. Although competition is expected to continue to increase, we have been successful in increasing our revenues significantly over last year through further development of our trading partnerships in Iraq.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks. The key risks are set out below.

Risks are formally reviewed by the board and appropriate processes put in place to monitor and mitigate them. If more than one event occurs, it is possible that the overall effect of such events would compound the possible adverse effects on the company.

Competition

Inclarity operates in highly competitive markets particularly around price and product quality. This results not only in downward pressure on our margins, but also the risk that we will not meet our customer's expectations. In order to mitigate the risk, our operations team monitor market prices on an ongoing basis and report to the Board regularly. Furthermore, we provide support 24 hours a day, 365 days a year to manage customer issues promptly.

Employee

The company's performance depends largely on its sales managers and engineering staff. The resignation of key individuals and the inability to recruit people with the right experience and skills could adversely impact Inclarity's results. To mitigate these issues, the company has introduced a bonus scheme for all employees and a share scheme for key employees linked to the company's results designed to retain key individuals.

Political

Inclarity operates in emerging countries such as Iraq. Political uncertainty and unrest can make it difficult for the company to send personnel into the regions from time to time. The company mitigates this risk by delivering solutions that can be managed remotely from the UK, and by recruiting local consultants wherever possible.

INCLARITY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2009

Regulation

Inclarity is affected by regulation over VoIP and international traffic in all of the countries it operates. Changes in regulation can result in Inclarity's services no longer being allowed to be operated in the country, or Inclarity's customer / supplier into the region no longer being able to operate in the country. This can have a significant adverse impact on revenues. The company manages the risk by being in dialogue with the regulators in the countries where possible, and by diversifying its countries of operation.

Key performance indicators ("KPIs")

The Board monitors performance of Inclarity on the basis of a number of KPIs for each of the areas of Finance, Operations and Sales. KPI'S used currently include revenue, gross margin, cash, revenue per head, headcount, number of new users compared to numbers scheduled etc. The company has continued to use a balanced scorecard during the 2008/9 financial year.

Future developments

The company continues to seek and develop new areas in all fields of telecommunication services.

Directors

The directors in office during the period were as follows:

A Hughes
A Besorai
A Rucigaj
B Andradi, appointed 8 December 2008

Supplier payment policy

The company does not follow a specified code or standard on payment practice but endeavours to ensure that all payments are made within mutually agreed credit terms.

Results and dividend policy

The company's loss for the financial year is £1,878,549 (2008: £4,153,146). The directors do not propose any dividends (2009: nil). Accordingly the retained loss for the year has been transferred to reserves.

INCLARITY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2009

Statement of directors' responsibilities.

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial and risk management

The company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, credit risk, liquidity risk, exchange rate and interest rate risk. The company has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the company by monitoring levels of debt finance and the related finance costs.

In order to ensure stability of cash out flows and hence manage interest rate risk, the company has a policy of maintaining 100 per cent of its long term debt at fixed rate. Further to this the company seeks to minimise the risk of uncertain funding in its operations by borrowing within a spread of maturity periods. Given the size and nature of operations, the company's policy is to operate with less than 50 percent of its debt being repayable within one year. At the year end, 95 per cent (2008: 35 per cent) of debt was repayable within one year with the movement being the result of the conversion of £7 million of convertible bonds to equity during the year. The company has not used derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

Given the size of the company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors are implemented by the company's finance department.

Price risk

The company is exposed to commodity price risk as a result of its operations. However, given the size of the company's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature. The company has no exposure to equity securities price risk as it holds no listed or other equity investments.

INCLARITY LIMITED

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2009

Credit risk

The company has implemented policies that require appropriate credit checks on potential customers before sales are made.

Liquidity risk

The company actively maintains a mixture of long-term and short-term debt finance that is designed to ensure the company has sufficient available funds for operations and any planned expansions.

Interest rate cash flow risk

The company has interest bearing liabilities. The company has a policy of maintaining long term debt at fixed rate to ensure certainty of future interest cash flows. The directors will revisit the appropriateness of this policy should the company's operations change in size or nature.

Directors' indemnity insurance

The Company maintains liability insurance for its directors and officers through a policy issued to the Company in March 2008.

Auditors and disclosure of information to auditors

So far as each of the directors are aware, there is no relevant audit information of which the company's auditors are unaware.

Each of the directors has taken all the steps that he ought to have taken as director in order to make himself aware of that information and establish that the company's auditors are aware of that information.

Auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with Section 385 of the Companies Act 1985 at the annual general meeting.

Approved by the Board of Directors on 23 July 2009 and signed on its behalf by



A Hughes
Director

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INCLARITY LIMITED

We have audited the financial statements of Inclarity Limited for the year ended 31 March 2009 which comprise the profit and loss account, the balance sheet, the cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 Companies Act 1985. We report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and the Company Information. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

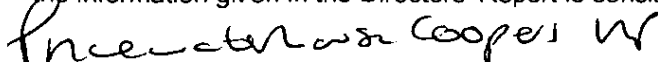
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
London

4 September 2009

INCLARITY LIMITED**PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 MARCH 2009**

	Notes	2009 £	2008 £
Turnover	2	17,814,744	12,202,799
Cost of sales		(13,979,075)	(8,936,816)
Gross profit		3,835,669	3,265,983
Administrative expenses		(6,048,936)	(7,549,996)
Operating loss	4	(2,213,267)	(4,284,013)
Interest receivable and similar income		615	14,188
Interest payable and similar charges	5	(107,180)	(131,362)
Loss on ordinary activities before taxation		(2,319,832)	(4,401,187)
Taxation	6	441,283	248,041
Loss on ordinary activities after taxation	16	(1,878,549)	(4,153,146)

The above results relate to continuing operations.

There are no recognised gains or losses other than the loss for the year. Therefore no separate statement of total recognised gains and losses has been prepared.

INCLARITY LIMITED**NOTE OF HISTORICAL COST PROFITS AND LOSSES****FOR THE YEAR ENDED 31 MARCH 2009**

	2009 £	2008 £
Reported loss on ordinary activities before taxation	(2,319,832)	(4,401,187)
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	<u>7,381</u>	<u>7,382</u>
Historical cost loss on ordinary activities before taxation	<u>(2,312,451)</u>	<u>(4,393,805)</u>
Historical cost loss retained after taxation	<u>(1,871,168)</u>	<u>(4,145,764)</u>

INCLARITY LIMITED

BALANCE SHEET AT 31 MARCH 2009

	Notes	£	2009 £	£	2008 £
Fixed assets					
Intangible assets	7		353,146		353,146
Tangible assets	8		1,361,329		1,484,133
Investments	9		5		5
			<hr/>		<hr/>
			1,714,470		1,837,284
Current assets					
Stocks	10	89,176		96,193	
Debtors	11	3,104,920		1,985,743	
			<hr/>	<hr/>	
			3,194,096	2,081,936	
Creditors: amounts falling due within one year	12	(4,303,316)		(4,269,870)	
			<hr/>	<hr/>	
Net current liabilities			(1,109,220)		(2,187,934)
			<hr/>		<hr/>
Total assets less current liabilities			605,250		(350,650)
Creditors: amounts falling due after more than one year	13		(241,240)		(7,371,643)
			<hr/>		<hr/>
Net assets/(liabilities)			364,010		(7,722,293)
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	14		10,498,153		1,378,367
Share premium	15		4,677,361		3,832,295
Revaluation reserve	15		338,507		338,507
Profit and loss account	15		(15,150,011)		(13,271,462)
			<hr/>		<hr/>
Shareholders' funds/(deficit)	16		364,010		(7,722,293)
			<hr/>		<hr/>

The financial statements on pages 7 to 23 were approved by the Board of Directors on 23 July 2009 and signed on its behalf by:



A Hughes
Director

INCLARITY LIMITED

CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2009

	Notes	2009 £	2008 £
Reconciliation of operating loss to net cash (outflow)/inflow from operating activities			
Operating loss		(2,213,267)	(4,284,014)
Depreciation and amortisation		463,356	1,283,179
Increase in debtors		(754,324)	(382,851)
Decrease/(increase) in stock		7,017	(18,025)
Increase/(decrease) in creditors		298,954	(570,652)
		<hr/>	<hr/>
Net cash outflow from operating activities		(2,198,264)	(3,972,363)
		<hr/>	<hr/>
Cash flow statement			
Net cash outflow from operating activities		(2,198,264)	(3,972,363)
Return on investment and servicing of finance	17	(106,565)	(117,174)
Taxation		441,283	248,041
Capital expenditure and financial investment	17	(340,542)	(897,469)
		<hr/>	<hr/>
		(2,204,088)	(4,738,965)
Financing	17	2,122,574	2,652,522
		<hr/>	<hr/>
Decrease in cash		(81,514)	(2,086,443)
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds (note 18)			
Decrease in cash		(81,514)	(2,086,443)
Cash outflow from decrease in loans		261,425	363,478
Repayment/(issue) of loan		216,000	(216,000)
Conversion/(issue) of bonds		7,000,000	(2,800,000)
		<hr/>	<hr/>
Change in net funds		7,395,911	(4,738,965)
Net debt at 1 April 2008		(8,217,892)	(3,478,927)
		<hr/>	<hr/>
Net debt at 31 March 2009		(821,981)	(8,217,892)
		<hr/>	<hr/>

INCLARITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable accounting standards in the United Kingdom which have been consistently applied and the Companies Act 1985. The financial statements have been prepared under the historical cost convention as modified by the revaluation of freehold land and buildings. The company has exercised its right under FRS2 as a medium sized company not to prepare consolidated financial statements.

The directors have prepared the financial statements on a going concern basis. A letter of financial support has been provided by the controlling party, Aktiva Invest International BV.

1.2 Turnover

Turnover represents sales to outside customers less value added tax and trade discounts.

Turnover from calls is recognised on provision of the service. If a customer disputes a balance, it is immediately provided for.

Turnover from maintenance contracts is recognised evenly over the period in which the service is provided.

Services invoiced in advanced is deferred and recognised on provision of the service. Revenue recognised in respect of unbilled services at the year end is accrued.

Turnover in respect of pre-paid telephone cards is recognised at the point of sale.

Turnover relating to Hosted IP business is recognised in the period over which the service is provided.

1.3 Tangible fixed assets

The cost of tangible fixed assets (other than freehold land and buildings) is their purchase cost, together with any incidental costs of acquisition.

Depreciation is calculated to write off the cost or valuation, less estimated residual values, of all fixed assets, except freehold land, evenly over their expected useful lives, as follows:-

Freehold buildings	2% per annum
Plant, machinery, fixtures & fittings	25% per annum on straight line
Motor vehicles	25% per annum on straight line

An amount equal to the excess of the annual depreciation charge on revalued assets over the notional historic cost depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss account.

1.4 Licenses and trademarks

Licenses are stated at cost and are amortised over a period of 4 years on a straight line basis. Trademarks are stated at cost.

1.5 Research and development costs

Research and development costs are expensed to the profit and loss account as incurred.

INCLARITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 MARCH 2009

1.6 Leasing and hire purchase contracts

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company 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 the leasing commitments is shown as obligations under finance leases. The 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 against profit in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets.

1.7 Deferred taxation

Provision is made for deferred taxation to take account of all timing differences between the incidence of income and expenditure for taxation and accounting purposes. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

1.8 Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the accounting date. Transactions in foreign currencies are recorded at the exchange rate at the date of transactions. All differences are taken to the profit and loss account.

1.9 Financial Instruments

In accordance with FRS25 – "Derivates and other financial instruments: disclosures", the company has taken advantage of the exemption available for short-term debtors and creditors. All financial assets and liabilities are recorded at cost.

Capital instruments that contain an obligation to transfer economic benefit are classified as liabilities and are recorded at their net proceeds.

Financial assets are recorded at cost and the return on such assets is accrued in the period to which it relates.

1.10 Stocks

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

1.11 Share-based incentives

The company complies with FRS20 "share based payments". In accordance with FRS 20 the fair value of equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight-line basis over the vesting period based on the company's estimate of options that will eventually vest. In the case of options granted, fair value is measured by a Black-Scholes pricing model. Further details are set out in note 3.

INCLARITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

2. TURNOVER

Segmental information	Year ended 31 March 2009 £	Year ended 31 March 2008 £
Turnover – by class of business		
Hosted IP	2,387,970	981,854
Voice and data	15,426,774	11,220,945
	<u>17,814,744</u>	<u>12,202,799</u>
 Turnover – by geographical destination		
United Kingdom	12,010,354	7,142,642
Others	5,804,390	5,060,157
	<u>17,814,744</u>	<u>12,202,799</u>
 Operating loss – by class of business		
Hosted IP	(3,111,388)	(5,741,581)
Voice and data	898,121	1,457,568
	<u>(2,213,267)</u>	<u>(4,284,013)</u>

All of the net assets are held in the United Kingdom. Costs are not allocated on a geographical basis and therefore the Directors are of the view that no meaningful information can be shown in respect to profitability by geographical region.

All of the company's assets are common assets used across both classes of business. The Directors are therefore of the view that no meaningful allocation of assets for each business segment can be produced.

INCLARITY LIMITED**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 2009**

3. STAFF COSTS	2009 £	2008 £
Staff costs (including directors' remuneration) were:		
Wages and salaries	2,817,382	3,244,989
Social security costs	332,941	381,928
	<u>3,150,323</u>	<u>3,626,917</u>
Directors' emoluments		
Aggregate emoluments	<u>212,500</u>	<u>452,500</u>
Highest paid director		
Aggregate emoluments	<u>212,500</u>	<u>240,000</u>

The average monthly number of employees (including directors) during the year was as follows:

	2009	2008
Administration	9	16
Sales	20	24
Operations	28	23
	<u>57</u>	<u>63</u>

The company's equity-settled share-based payments comprise an Inland Revenue Approved Company Share Option Plan (CSOP) and an Unapproved Plan for senior executives. Details of share options subject to equity-settled share-based payments are set out in note 14.

The Board has periodically awarded unapproved share options to senior executives since 1999. The unapproved share options vest over three years and expire on the 10th anniversary of the date of grant. The Board only expects the options to be exercised at the point of an exit event.

In 2003, the Board approved the creation of an Inland Revenue Approved Company Share Option Plan (CSOP). The CSOP share options vest over three years and expire on the 10th anniversary of the date of grant. The CSOP share options are only eligible to be exercised at the point of an exit event.

INCLARITY LIMITED**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 2009**

The share options are valued using a Black-Scholes model. The company estimates the number of options likely to vest and expenses that value over the relevant period. Volatility has been estimated by taking an expected range of values at date of exit assumed to be in 2010. Vesting estimates take account of the company's high staff retention rate.

	CSOP	Unapproved Plan
Exercise price	725p	725p
Option life to exit event in years	2	2
Risk free rate	5.7%	5.7%
Expected volatility	1600%	1600%
Value per option	135p	135p

The fair value of the options is expensed over the period to the expected exit event, based on a Black-Scholes model, assuming a risk free rate of 5.7%, and expected volatility of 1600%. There are no performance measures. None of the employees awarded the share options are expected to leave the company before 2010 or, in the case of senior executives, expected to lose the right over the share options.

4. OPERATING LOSS	2009	2008
	£	£

Operating loss is stated after charging:

Depreciation on owned tangible fixed assets	314,132	1,017,280
Depreciation on tangible fixed assets held under hire purchase agreements	132,552	245,029
Depreciation on equipment rented to customers included in cost of sales	16,672	19,541
Amortisation of intangible assets	-	1,329
Auditors' remuneration for audit services	34,000	36,000
Auditors' remuneration for non audit services	15,953	26,050
Operating lease rental – land and buildings	<u>238,219</u>	<u>204,509</u>

5. INTEREST PAYABLE AND SIMILAR CHARGES	2009	2008
	£	£

Interest payable on bank loans	18,724	22,207
Interest payable on finance leases	23,566	68,482
Other interest payable	60,904	26,716
Invoice financing	3,986	13,956
	<u>107,180</u>	<u>131,362</u>

INCLARITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

6. TAXATION	2009 £	2008 £
Current tax		
UK corporation tax on losses for the year	-	-
Adjustment in respect of previous periods	(441,283)	(248,041)
	<hr/>	<hr/>
Total current tax	<u>(441,283)</u>	<u>(248,041)</u>

The tax assessed for the year is different than the standard rate of corporation tax in the UK (28%). The differences are explained below:

Loss on ordinary activities before tax	<u>(2,319,832)</u>	<u>(4,401,187)</u>
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Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)	(649,553)	(1,320,356)
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Effects of:

Expenses not deductible for tax purposes	7,427	15,492
Depreciation for period in excess of capital allowances	(102,026)	532,727
Losses carried forward	744,152	772,137
Prior year adjustment in respect of research and development relief	(441,283)	(248,041)
	<hr/>	<hr/>
Current tax credit for the year	<u>(441,283)</u>	<u>(248,041)</u>

In accordance with the accounting policy, deferred tax assets relating to trading losses carried forward of £1,568,470 (2008: £727,660) have not been recognised in the financial statements due to uncertainty over the timing of suitable future taxable profits.

INCLARITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

7. INTANGIBLE FIXED ASSETS

	Licences & Trademarks £
Cost	
At 31 March 2008	374,588
Addition	-
At 31 March 2009	<u>374,588</u>
Amortisation	
At 1 April 2008	21,442
Charge for year	-
At 31 March 2009	<u>21,442</u>
Net book value	
At 31 March 2009	<u>353,146</u>
At 31 March 2008	<u>353,146</u>

8. TANGIBLE ASSETS

	Freehold land, buildings & improvements £	Plant, machinery, fixtures & fittings £	Total £
Cost/Revaluation			
At 1 April 2008	650,000	6,921,909	7,571,909
Additions	-	340,542	340,542
At 31 March 2009	<u>650,000</u>	<u>7,262,451</u>	<u>7,912,451</u>
Depreciation			
At 1 April 2008	94,552	5,993,224	6,087,776
Charge for the year	13,000	450,356	463,356
At 31 March 2009	<u>107,552</u>	<u>6,443,580</u>	<u>6,551,132</u>
Net book value			
At 31 March 2009	<u>542,448</u>	<u>818,871</u>	<u>1,361,319</u>
At 31 March 2008	<u>555,448</u>	<u>928,685</u>	<u>1,484,133</u>

INCLARITY LIMITED**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 2009****8. TANGIBLE ASSETS (cont)**

The historical cost net book value of freehold buildings is:

	2009 £	2008 £
Cost	280,937	280,937
Accumulated depreciation	(65,399)	(59,780)
	<hr/>	<hr/>
Historical cost net book value	<u>215,538</u>	<u>221,157</u>

The freehold property was revalued on 04 October 2006 by Lewis Doyle, independent Chartered Surveyors on an open market value basis.

The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the United Kingdom.

The net book value of tangible fixed assets includes an amount of £530,207 (2008: £1,020,264) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the year amounted to £132,552 (2008: £245,029).

9. INVESTMENTS

	Shares in Subsidiary Undertakings £
Cost	
At 1 April 2008	5
Impairments	-
	<hr/>
Cost at 31 March 2009	<u>5</u>

The subsidiary companies are Hitoori Limited, Hitoori.com Limited, ABS2net Limited, ABS Telecom Limited and Broadband Telephony Limited and are all wholly owned. All of the subsidiary undertakings are dormant and registered in England.

INCLARITY LIMITED**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 2009**

10. STOCKS	2009	2008
	£	£
Finished goods	89,176	96,193
11. DEBTORS	2009	2008
	£	£
Trade debtors	594,102	532,169
Other debtors	711,119	253,418
Prepayment and accrued income	1,799,699	1,200,156
	3,104,920	1,985,743
12. CREDITORS: Amounts falling due within one year	2009	2008
	£	£
Bank loans (secured - see note 13)	52,597	49,114
Bank overdraft	450,340	368,826
Short term loan	-	216,000
Trade creditors	1,753,379	1,613,298
Taxation and social security	134,275	237,142
Obligations under hire purchase agreements	77,804	212,309
Other creditors	186,872	332,108
Accruals	1,492,028	1,010,873
Deferred income	156,021	230,200
	4,303,316	4,269,870

Hire purchase creditors are secured on the assets acquired.

INCLARITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

13. CREDITORS: Amounts falling due after more than one year	2009 £	2008 £
Bank loans (secured)	226,618	279,216
Obligations under hire purchase agreements	14,622	92,427
Convertible bond	-	7,000,000
	<hr/>	<hr/>
	241,240	7,371,643

The bank loans fall due for repayment as follows:	2009 £	2008 £
Within one year	52,597	49,114
Between one year and two years	56,081	52,597
Between two years and five years	170,537	178,693
After more than five years	-	47,924
	<hr/>	<hr/>
	279,215	328,328

Obligations under hire purchase agreements fall due for repayment as follows:

Within one year	77,804	212,309
Between one year and two years	14,622	77,804
Between two years and five years	-	14,622
	<hr/>	<hr/>
	92,426	304,735

The bank loans are secured by a fixed and floating charge over the company's assets and are repayable on demand. Interest is charged at a fixed rate of 6.4%. The finance leases and hire purchase contracts are secured on the assets concerned.

On 19 March 2008, the company issued £4.2m of convertible and redeemable bonds. The bond offer was subscribed to in full by Aktiva Invest International BV (formerly Aktiva Ventures BV). A further tranche of £2.8m in series "B" convertible redeemable bond offer was subscribed to in full by Aktiva Invest International BV. Both tranches were converted into Preferred A shares on 16 July 2008.

INCLARITY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2009

14. SHARE CAPITAL	2009 £	2008 £
Authorised		
Ordinary shares of £1 each	18,000,000	14,000,000
6% Preference shares of £1 each	12,000,000	8,000,000
	<u>30,000,000</u>	<u>22,000,000</u>
Allotted, called up and fully paid		
Ordinary shares of £1 each at 1 April	1,155,267	1,155,267
6% Preference shares of £1 each at 1 April	223,100	223,100
Preference shares allotted on conversion of bonds	6,500,184	-
Preference shares issued	2,295,173	-
Ordinary shares issued	<u>324,429</u>	<u>-</u>
At 31 March	<u>10,498,153</u>	<u>1,378,367</u>

The 6% preference shareholders are entitled to dividends equal to 6% of the share purchase price in preference to the ordinary shareholders subject to available distributable reserves and board approval. On winding up, the 6% preference shareholders are entitled to an amount equal to the purchase price plus 6% of the purchase price of the preference share in preference to the ordinary shareholders. Thereafter, the preference and ordinary shares rank pari passu. The authorised share capital was increased by ordinary resolution on the 25 June 2008 by the creation of an additional 4,000,000 Ordinary shares of £1 each and 4,000,000 Preference shares of £1 each.

As at 31st March 2009, options over 12,475 (2008: 13,975) ordinary shares were outstanding under the Inland Revenue Approved Company Share Option Plan (CSOP), and 27,369 (2008: 120,063) ordinary shares were outstanding under the Company Unapproved Share Option Plan. The options under the CSOP scheme were granted between August 2003 and November 2004, with all options having an exercise price of 750p. The options under the Unapproved Plan were granted in 2001 having an exercise price of 725p. During the year 92,694 options under the unapproved plan were forfeited and 1,500 options under the CSOP were forfeited.

15. CAPITAL & RESERVES	Revaluation reserve £	Share premium account £	Profit & loss account £
At 1 April 2008	338,507	3,832,295	(13,271,462)
Loss for the year	-	-	(1,878,549)
Premium on shares issued on conversion of bonds	-	499,816	-
Premium on preference shares issued	-	40,424	-
Premium on ordinary shares issued	-	304,826	-
At 31 March 2009	<u>338,507</u>	<u>4,677,361</u>	<u>(15,150,011)</u>

INCLARITY LIMITED**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 2009****16. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	2009 £	2008 £
Loss for the year	(1,878,549)	(4,153,146)
Opening shareholders' funds	(7,722,293)	(3,569,147)
Conversion of bonds into equity	7,000,000	-
Ordinary shares issued	364,853	-
Preference shares issued	2,599,999	-
	<hr/>	<hr/>
Closing shareholders' funds	364,010	(7,722,293)
	<hr/>	<hr/>

17. GROSS CASH FLOWS

	2009 £	2008 £
Return on investment and servicing of finance		
Interest received	615	14,188
Interest paid	(107,180)	(131,362)
	<hr/>	<hr/>
	(106,565)	(117,174)
	<hr/>	<hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(340,542)	(545,678)
Purchase of intangible fixed assets	-	(353,146)
Disposal of tangible fixed assets	-	1,355
	<hr/>	<hr/>
	(340,542)	(897,469)
	<hr/>	<hr/>
Financing		
Repayment of bank loan	(49,115)	(45,628)
Repayment of hire purchase agreements	(212,310)	(317,850)
Issue of preference shares	2,599,999	-
Repayment of short term loan	(216,000)	216,000
	<hr/>	<hr/>
	2,122,574	2,652,522
	<hr/>	<hr/>

INCLARITY LIMITED**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 2009****18. ANALYSIS OF CHANGES IN NET FUNDS**

	At 1 April 2008 £	Cashflows £	Other changes £	At 31 March 2009 £
Cash at bank and in hand	(368,826)	(81,514)	-	(450,340)
Loans due within one year	(49,114)	(3,483)	-	(52,597)
Loans due after more than one year	(279,216)	52,598	-	(226,618)
Hire purchase	(304,736)	212,310	-	(92,426)
Short term loan	(216,000)	216,000	-	-
Convertible bonds	(7,000,000)	-	7,000,000	-
	<u>(8,217,892)</u>	<u>395,911</u>	<u>7,000,000</u>	<u>(821,981)</u>

19. ULTIMATE CONTROLLER

The company is controlled by Aktiva Invest International BV (formerly Aktiva Ventures BV).

20. LEASING COMMITMENTS

At 31 March 2009, the company had the following commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2009	2008
Wembley Rental	£	£
Expiring:		
Within one year	31,624	137,498
Over one year	<u>-</u>	<u>169,122</u>