

INCLARITY PLC

Company No. 2673204

**DIRECTORS' REPORT &
FINANCIAL STATEMENTS**

For the year ended 31 March 2005



INCLARITY PLC

COMPANY INFORMATION

Directors	A Besorai N Pandya E Roman A Fisher D Horvat E Itah
Secretary	A Besorai
Company Number	2673204 (England and Wales)
Registered office	Inclarity House 607 High Road London N12 0DZ
Independent Auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH

INCLARITY PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

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INCLARITY PLC

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2005

The directors present their report and the financial statements for the year ended 31 March 2005.

Principal activities and business review

The principal activity of the company and the group continues to be the provision of telecommunication services.

The directors are pleased with the increase in the group's turnover during the year and anticipate that the forthcoming year will show a continuing improvement in performance.

The profit and loss account is set out on page 4 and shows the results for the year.

Future developments

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

Directors and directors' interests

The directors in office during the period were as follows:

A Besorai
N Pandya
E Roman
A Fisher (appointed 28 September 2004)
D Horvat (appointed 25 February 2004)

As at 31 March 2005, A Fisher, A Besorai and families held 881,149 ordinary shares (2004: 881,149) as beneficiaries of certain Trusts, E Roman held 113,795 (2004: 113,795) shares as a beneficiary of a Trust and J Costley held 11,800 ordinary shares (2004: 13,800).

Details of the share options held by directors in Inclarity PLC are detailed below:

Name	Date of grant	Grant price £	Grant Amount Shares	Outstanding at 01 April 2004	Exercised in year	Granted in year	Outstanding at 31 March 2005
N Pandya	19/03/ 2001	7.25	19,898	19,898	nil	nil	19,898

The above options are exercisable before March 2009.

Supplier payment policy

The group 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.

INCLARITY PLC

DIRECTORS' REPORT - *Statement of directors' responsibilities*

FOR THE YEAR ENDED 31 MARCH 2005

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 group and of the profit or loss of the group 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 group 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 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 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.

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 31/1/06 and signed on its behalf by



N Pandya
Director

INCLARITY PLC

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF INCLARITY PLC

We have audited the financial statements, which comprise the consolidated profit and loss account, the consolidated statement of historical cost gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement 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 relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 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.

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 of the group at 31 March 2005 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 LLP
Chartered Accountants and Registered Auditors
London

31 January 2006

INCLARITY PLC**CONSOLIDATED PROFIT AND LOSS ACCOUNT****FOR THE YEAR ENDED 31 MARCH 2005**

	Notes	2005 £	2004 £
Turnover	2	18,059,728	11,439,711
Cost of sales		(12,644,492)	(7,881,941)
Gross profit		<u>5,415,236</u>	<u>3,557,770</u>
Administrative expenses		(7,317,045)	(4,019,093)
Operating loss	4	<u>(1,901,809)</u>	<u>(461,323)</u>
Share of operating profit/(loss) in associated Undertaking		141,089	(6,288)
		<u>(1,760,720)</u>	<u>(467,611)</u>
Interest receivable and similar income		36,055	47,003
Interest payable and similar charges	5	(142,196)	(74,645)
Loss on ordinary activities before taxation		<u>(1,866,861)</u>	<u>(495,253)</u>
Taxation	6	-	172,580
Loss on ordinary activities after taxation	16	<u>(1,866,861)</u>	<u>(322,673)</u>

The above results relate to continuing activities.

The group has no other recognised gains or losses other than the results disclosed above.

INCLARITY PLC

NOTE OF HISTORICAL COST PROFITS AND LOSSES

FOR THE YEAR ENDED 31 MARCH 2005

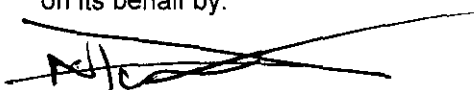
	2005 £	2004 £
Reported loss on ordinary activities before taxation	(1,866,860)	(495,253)
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	<u>4,381</u>	<u>4,381</u>
Historical cost loss on ordinary activities before taxation	<u>(1,862,479)</u>	<u>(490,872)</u>
Historical cost loss retained after taxation	<u>(1,862,479)</u>	<u>(318,292)</u>

INCLARITY PLC

CONSOLIDATED BALANCE SHEET AT 31 MARCH 2005

	Notes	£	2005 £	£	2004 £
Fixed assets					
Intangible assets	7		327,842		21,442
Tangible assets	8		3,102,083		2,301,778
			<hr/>		<hr/>
			3,429,925		2,323,220
Current assets					
Debtors	10	2,916,504		3,701,636	
Cash at bank and in hand		2,430,756		1,638,169	
		<hr/>		<hr/>	
			5,347,260		5,339,805
Creditors: Amounts falling due within one year	11	(6,683,407)		(4,918,877)	
		<hr/>		<hr/>	
Net current liabilities			(1,336,147)		420,928
			<hr/>		<hr/>
Total assets less current liabilities			2,093,778		2,744,148
Creditors: Amounts falling due after more than one year	12		(1,186,442)		(628,872)
			<hr/>		<hr/>
			907,336		2,115,276
Share of net liabilities in associated Undertaking	13		(15,196)		(156,275)
			<hr/>		<hr/>
Net assets			892,140		1,959,001
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	14		1,378,367		1,301,642
Share premium	15		3,832,295		3,109,020
Revaluation reserve	15		204,171		208,552
Profit and loss account	15		(4,522,693)		(2,660,213)
			<hr/>		<hr/>
Equity shareholders' funds	16		892,140		1,959,001
			<hr/>		<hr/>

The financial statements on pages 4 to 8 were approved by the Board of Directors on 31/1/06 and signed on its behalf by:



N Pandya
Director

INCLARITY PLC

COMPANY BALANCE SHEET AT 31 MARCH 2005

	Notes	£	2005 £	£	2004 £
Fixed assets					
Intangible assets	7		327,842		21,442
Tangible assets	8		3,102,083		2,301,778
Investments	9		5		505
			<hr/>		<hr/>
			3,429,930		2,323,725
Current assets					
Debtors	10	2,916,504		3,701,636	
Cash at bank and in hand		2,430,756		1,638,169	
		<hr/>		<hr/>	
			5,347,260		5,339,805
Creditors: Amounts falling due within one year	11	(6,683,407)		(4,918,877)	
		<hr/>		<hr/>	
Net current liabilities			(1,336,147)		420,928
			<hr/>		<hr/>
Total assets less current liabilities			2,093,783		2,744,653
Creditors: Amounts falling due after more than one year	12		(1,186,442)		(628,872)
			<hr/>		<hr/>
Net assets			907,341		2,115,781
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	14		1,378,367		1,301,642
Share premium	15		3,832,295		3,109,020
Revaluation reserve	15		204,171		208,552
Profit and loss account	15		(4,507,492)		(2,503,431)
			<hr/>		<hr/>
Equity shareholders' funds	16		907,341		2,115,783
			<hr/>		<hr/>

The financial statements on pages 4 to 8 were approved by the Board of Directors on 31/1/06 and signed on its behalf by:



N Pandya
Director

INCLARITY PLC

CONSOLIDATED CASHFLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	Notes	2005 £	2004 £
Reconciliation of operating loss to net cash (outflow)/inflow from operating activities			
Operating loss		(1,901,809)	(461,323)
Depreciation and amortisation		1,094,704	359,663
(Increase)/decrease in debtors		316,617	(1,865,145)
Increase/(decrease) in creditors		1,407,264	1,829,606
		<hr/>	<hr/>
Net cash (outflow)/inflow from operating activities		916,776	(137,199)
		<hr/>	<hr/>
Cash flow statement			
Net cash inflow from operating activities		916,776	(137,199)
Return on investment and servicing of finance	17	(106,141)	(27,642))
Taxation		172,580	
Capital expenditure and financial investment	17	(1,894,260)	(1,114,971)
		<hr/>	<hr/>
		(911,045)	(1,279,812)
Financing	17	1,674,411	1,746,948
		<hr/>	<hr/>
Increase in cash		763,366	467,136
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds (note 18)			
Increase in cash		763,366	467,136
Cash outflow from decrease in loans		50,079	16,022
Net Cash receipt on hire purchase agreements and share issue		(1,724,490)	(162,979)
		<hr/>	<hr/>
Change in net funds resulting from cash flows		(911,045)	320,179
Net funds at 1 April 2004		860,053	539,874
		<hr/>	<hr/>
Net funds at 31 March 2005		(50,992)	860,053
		<hr/>	<hr/>

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable Accounting and 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 consolidated financial statements include the results of the company and its subsidiary undertakings. The consolidated profit and loss account includes the group's share of profits or losses of associated undertakings and the consolidated balance sheet includes the group's interest in associated undertakings at the book value of attributable net assets or liabilities.

In accordance with the exemptions allowed by Section 230 of the Companies Act 1985, the company has not presented its own profit and loss account. The company made a loss in the year of £1,965,004 (2004: £316,385).

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

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.

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

1.4 Licenses and trademarks

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

1.5 Research and development costs

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

1.6 Investments

Investments in subsidiary and associate undertakings are stated at cost. Any permanent diminutions in value are charged to the profit and loss account.

1.7 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.

1.8 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.

1.9 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.

1.10 Invoice discounting

Invoices discounted are shown under the separate presentation method.

1.11 Financial Instruments

In accordance with FRS13 – "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.

1.12 Goodwill

Goodwill arising on the acquisition of a business, representing any excess of the fair value of the consideration given over the fair value of the separately identifiable net assets acquired is capitalised and being amortised over a 5 year period, on a straight line basis, representing the directors estimation of the useful economic life.

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

2. TURNOVER

Segmental information	Year ended 31 March 2005 £'000	Year ended 31 March 2004 £'000
Turnover – by class of business		
Broadband telephony	135	40
Voice and data	17,925	11,400
	<hr/>	<hr/>
	18,060	11,440
	<hr/>	<hr/>
Turnover – by geographical destination		
United Kingdom	13,045	9,386
Others	5,015	2,054
	<hr/>	<hr/>
	18,060	11,440
	<hr/>	<hr/>
The origin of all turnover is the UK		
Operating (loss)/profit – by class of business		
Broadband telephony	(4,789)	(2,271)
Voice and data	2,887	1,810
	<hr/>	<hr/>
	(1,902)	(461)
	<hr/>	<hr/>

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 group'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 PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

3. STAFF COSTS	2005 £	2004 £
Staff costs (including directors' remuneration) were:		
Wages and salaries	3,139,239	1,917,449
Social security costs	357,196	219,903
	<hr/>	<hr/>
	3,496,435	2,137,352
	<hr/>	<hr/>
Directors' emoluments		
Aggregate emoluments	253,117	243,926
Other benefits	18,727	21,347
	<hr/>	<hr/>
	271,844	265,273
	<hr/>	<hr/>
Highest paid director		
Aggregate emoluments	150,000	150,000
Other benefits	15,610	18,230
	<hr/>	<hr/>
	165,610	168,230
	<hr/>	<hr/>

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

Administration	17	13
Sales	36	15
Operations	36	23
	<hr/>	<hr/>
	89	51
	<hr/>	<hr/>

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

4. COMPANY OPERATING LOSS	2005 £	2004 £
Operating loss is stated after charging:		
Depreciation on owned tangible fixed assets	795,782	236,004
Depreciation on tangible fixed assets held under hire purchase agreements	298,922	123,659
Auditors' remuneration for audit services – company	18,000	14,000
Auditors' remuneration for non audit services	-	2,690
Operating lease rental – land and buildings	98,047	37,500
	<u> </u>	<u> </u>
5. INTEREST PAYABLE AND SIMILAR CHARGES	2005 £	2004 £
Bank loans	28,618	33,146
Finance leases	69,224	18,335
Other interest	425	639
Invoice financing	43,929	22,525
	<u> </u>	<u> </u>
	142,196	74,645
	<u> </u>	<u> </u>
6. TAXATION	2005 £	2004 £
Taxation on profit for the year		
UK corporation tax charges/ (credits) for the year	-	(172,580)
Profit on ordinary activities before tax	(1,866,860)	(495,253)
	<u> </u>	<u> </u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2004: 30%)	(560,058)	(148,576)
	<u> </u>	<u> </u>
Effects of:		
Expenses not deductible for tax purposes	32,158	1,442
Depreciation for period in excess of capital allowances	328,012	107,899
Net impact of associated undertaking	(42,327)	1,886
Losses not utilised in the year	242,215	37,349
Prior year adjustment in respect of research and development relief	-	(172,580)
	<u> </u>	<u> </u>
	-	(172,580)
	<u> </u>	<u> </u>

In accordance with the accounting policy, no allowance has been made in respect of deferred tax assets relating to trading losses carried forward.

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

7. INTANGIBLE FIXED ASSETS

	Licences & Trademarks £	Goodwill £	Total £
Cost			
At 1 April 2004	21,442	-	21,442
Additions	-	314,730	314,730
Disposal	(7,000)	-	(7,000)
Amortisation	(1,330)	-	(1,330)
	<hr/>	<hr/>	<hr/>
At 31 March 2005	13,112	314,730	327,842
	<hr/>	<hr/>	<hr/>

8. TANGIBLE ASSETS

	Freehold land, buildings & improvements £	Motor vehicles £	Plant, machinery, fixtures & fittings £	Total £
Cost/Revaluation				
At 1 April 2004	818,473	30,200	3,015,687	3,864,360
Additions	-	-	1,894,229	1,894,229
Disposal	(550)	-	(17,331)	(17,881)
Re-classification	(306,640)	-	306,640	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	511,283	30,200	5,199,225	5,740,708
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 April 2004	83,335	19,659	1,459,588	1,562,582
Charge for the period	10,232	7,550	1,075,592	1,093,374
Disposal	-	-	(17,331)	(17,331)
Re-classification	(35,239)	-	35,239	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	58,328	27,209	2,553,088	2,638,625
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
At 31 March 2005	452,955	2,991	2,646,137	3,102,083
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2004	735,138	10,541	1,556,099	2,301,778
	<hr/>	<hr/>	<hr/>	<hr/>

During the year the estimated useful economic lives of plant and machinery, fixtures and fittings and motor vehicles were decreased. The impact on the depreciation charge for the period was a increase of £484,080.

INCLARITY PLC**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 2005****8. TANGIBLE ASSETS (cont)**

The historical cost net book value of freehold buildings is:

	2005 £	2004 £
Cost	280,937	280,937
Accumulated depreciation	(42,924)	(37,305)
	<hr/>	<hr/>
Historical cost net book value	238,013	243,632
	<hr/>	<hr/>

The freehold property was revalued on 13 May 2003 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 £1,474,801 (2004: £593,147) in respect of assets held under finance leases and hire purchase contracts. The related depreciation charge for the year amounted to £298,922 (2004: £123,659).

9. INVESTMENTS

	Associated Undertaking £	Subsidiary Undertakings £	Total £
Cost			
At 1 April 2004	500	5	505
Impairments	(500)	-	(500)
	<hr/>	<hr/>	<hr/>
Cost at 31 March 2005	-	5	5
	<hr/>	<hr/>	<hr/>

The cost of investment in the associate undertaking was impaired during the year.

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. See Note 13 for details of the associated undertaking.

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

10. DEBTORS	2005 £	2004 £
Trade debtors	1,114,993	1,861,735
Accrued Income	1,470,495	1,468,766
Amounts due from associated undertakings		
Prepayments	168,840	191,414
Other debtors	156,976	179,721
Stock	5,200	-
	<hr/>	<hr/>
	2,916,504	3,701,636
	<hr/>	<hr/>
11. CREDITORS: Amounts falling due within one year	2005 £	2004 £
Bank loans (secured - see note 12)	37,912	50,079
Payments received on account	767,348	767,348
Trade creditors	2,630,339	1,922,886
Taxation and social security	551,256	211,183
Obligations under hire purchase agreements	425,159	99,164
Other creditors	212,544	88,052
Factor advances	653,720	447,587
Accruals	1,405,129	1,332,578
	<hr/>	<hr/>
	6,683,407	4,918,877
	<hr/>	<hr/>

Hire purchase creditors are secured on the assets acquired.

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

12. CREDITORS: Amounts falling due after more than one year	2005 £	2004 £
Bank loans (secured)	434,255	472,167
Obligations under hire purchase agreements	752,187	156,705
	<u>1,186,442</u>	<u>628,872</u>
The bank loans fall due for repayment as follows:		
Within one year	37,912	50,079
Between one year and two years	41,450	37,912
Between two years and five years	145,578	144,209
After more than five years	247,227	290,046
	<u>472,167</u>	<u>522,246</u>
Obligations under hire purchase agreements fall due for repayment as follows:		
Within one year	425,159	99,164
Between one year and two years	411,444	107,127
Between two years and five years	343,757	49,578
	<u>1,180,360</u>	<u>255,869</u>

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.

13. INTEREST IN ASSOCIATED UNDERTAKING

The company held 50% of the ordinary share capital of Tel 2000 Limited, a company that provides Telecommunication services and which is registered in England.

The company's share of the associate's net liabilities is analysed as follows:

Share of turnover	103,476	142,689
Share of assets		
Fixed assets	-	-
Current Assets	15,281	38,395
Share of Net liabilities	<u>(15,196)</u>	<u>(156,275)</u>

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

14. SHARE CAPITAL	2005 £	2004 £
Authorised		
Ordinary shares of £1 each	14,000,000	14,000,000
6% Preference shares of £1 each	1,000,000	1,000,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
Ordinary shares of £1 each	1,155,267	1,155,267
6% Preference shares of £1 each	223,100	146,375
	<hr/>	<hr/>
	1,378,367	1,301,642
	<hr/>	<hr/>

On 7 February 2005, the company issued 76,725 6% preference shares to £1 each for a cash consideration of £800,000. The 6% preference shareholders are entitled to dividends equal to 6% of the share purchase price in preference to the ordinary shareholders. 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.

At 31 March 2005, the total number of ordinary shares over which the company had granted share options was 156,274 shares. The options are exercisable over varying periods, with the latest exercisable date of any option being 1 June 2004. The exercise price payable by the option holders is in the range of £3 to £7.25 per share.

15. CAPITAL & RESERVES	Revaluation reserve £	Share premium account £	Group profit & loss account £	Company profit & loss account £
At 1 April 2004	208,552	3,109,020	(2,660,213)	(2,503,431)
Loss for the year	-	-	(1,866,861)	(2,008,442)
Issue of preference shares	-	723,275	-	-
Transfers	(4,381)	-	4,381	4,381
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2005	204,171	3,832,295	(4,522,693)	(4,507,492)
	<hr/>	<hr/>	<hr/>	<hr/>

16. EQUITY SHAREHOLDERS' FUNDS

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Loss for the year	(1,866,861)	(322,673)	(2,008,442)	(316,385)
Opening shareholders' funds	1,959,001	681,674	2,115,783	832,168
Issue of preference shares	800,000	1,600,000	800,000	1,600,000
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	892,140	1,959,001	907,341	2,115,783
	<hr/>	<hr/>	<hr/>	<hr/>

INCLARITY PLC

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2005

17. GROSS CASH FLOWS

	2005 £	2004 £
Return on investment and servicing of finance		
Interest received	36,055	47,003
Interest paid	(142,196)	(74,645)
	<u>(106,141)</u>	<u>(27,642)</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(1,894,260)	(1,110,259)
Purchase of intangible fixed assets	-	(4,719)
	<u>(1,894,260)</u>	<u>(1,114,978)</u>
Financing		
Repayment of bank loan	(50,079)	(16,022)
Repayment of hire purchase agreements	(256,086)	(162,970)
Issue of preference shares	800,000	1,600,000
New bank loan	-	-
Proceeds from new leases	1,180,576	306,758
	<u>1,674,411</u>	<u>1,727,766</u>

18. ANALYSIS OF CHANGES IN NET FUNDS

	At 1 April 2004 £	Cashflows £	Other changes £	At 31 March 2005 £
Cash at bank and in hand	1,638,169	792,587	-	2,430,756
Loans due within one year	(50,079)	50,079	(37,912)	(37,912)
Loans due after more than one year	(472,167)	-	37,912	(434,255)
Hire purchase	(255,869)	(924,490)	-	(1,180,360)
Proceeds from share issue	-	(800,000)	-	(800,000)
	<u>860,054</u>	<u>(881,824)</u>	<u>-</u>	<u>(21,771)</u>

INCLARITY PLC**NOTES TO THE FINANCIAL STATEMENTS****FOR THE YEAR ENDED 31 MARCH 5****19. ULTIMATE CONTROLLER**

The company is not controlled by any single individual or entity.

20. LEASING COMMITMENTS

At 31 March 2005, the company had the following annual commitments under non-cancellable operating leases in respect of land and building as follows:

	2005	2004
	£	£
Expiry date:		
Between one and five years	137,498	37,500

21. ACQUISITION

On 31 March 2005, Inclarity plc acquired the trade and assets of Tel2000 Ltd, an associated undertaking of the Company. The following assets and liabilities were acquired, settled by the waiver of amounts due from Tel2000 to the Company.

	2005 £
Fixed assets	-
Current assets	30,562
Current liabilities	(20,744)
Net assets	9,818
Goodwill	311,485
Settled by waiver of debts due from Tel2000 Ltd	327,793

22. RELATED PARTY TRANSACTIONS

During the year, the company invoiced for service charges of £68,769 (2004: £68,769) and telephone services of £175,428 (2004: £203,312) to Tel 2000 Limited. At 31 March 2004, the balance due from Tel 2000 Limited in respect of telephone services was nil (2004: £163,665). The services were provided on normal commercial trading terms.

The company has also made an advance to Tel 2000 Limited. At 31 March 2004, the balance due from Tel 2000 Limited was nil (2004: £90,983).

On 31 March 2005, the Company waived its loans amounting to £327,793 due from Tel2000 Ltd, an associated undertaking. The loans were waived in consideration for the trade and assets of Tel2000 Ltd. Further details of this acquisition are included in note 21.