Intellego Holdings plc

Annual Report & Accounts

2005

FINANCIAL HIGHLIGHTS

- Sales up by over 86% to £517,812 (fourteen months to 2 April 04, (2004) £278,151)
- Gross margin increase to 66% (2004, 57%)
- Loss before tax -£176,284 (2004, -£66,828) reflective of investments made and in line with budget
- Sales revenue from technical services activities increased to 36% of total revenue (2004, 22%)
- Cash balance of £200,477 as at 31 March 2005 (2004, £19,030)

BUSINESS HIGHLIGHTS

- Significant new customer wins in period include; Securicor, DHL, Xerox, Prudential Property Investment Managers, AMEC Group, TUI and The Open University
- Strong sales growth, driving increased market share
- Sales force incremented and strengthened by hiring proven e-Learning sales professionals
- Considering acquisition to enhance services capability, announcement expected in the near term
- New products to be added focussed on the SAP market

ADDRESS AND CONTACT DETAILS

Intellego Holdings plc

Business Address :

1 Orlando House
High Street
Teddington
Middx. TW11 8LZ

tel : +44 (0)870 428 1250

fax : +44 (0)870 428 1251

email : investor@intellego-plc.com

web : www.intellego-plc.com

Registered Office :

The White Cottage
19 West Street
Epsom
Surrey KT18 7BS

Company Number :

5212388

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DIRECTORS

DIRECTORS	Michael Couzens – *Non-Executive Chairman*
	Edward Arnett – *Chief Executive Officer*
	Angus Forrest – *Non-Executive Director*
	Andrew Green – *Chief Operating Officer*
	Christopher Saltrick FCA – *Finance Director*
COMPANY SECRETARY	Christopher Saltrick FCA

...sales in the year rose by over 86% to £517,812 (2004: £278,151)...

The year was one of achievement for your Company, with organic growth of the core business in both sales and gross profit. The admission of Intellego's shares to AIM in December 2004 enables the business to continue its expansion and to take opportunities to grow by strategic acquisition.

The e-Learning market in the UK is predicted by market analysts IDC to grow by around 28% to over £140m in 2005 and according to the e-Learning Network – the Professional Association for Users and Developers of e-Learning, the influence of e-Learning continues to spread throughout the UK economy with an increasing number of people and functions becoming involved in the purchase, development and use of distributed learning solutions. Against this market backcloth, in the period to 31 March 2005, Intellego has made significant developments in growing its service based e-Learning solutions business.

I am pleased to report that sales in the year rose by over 86% to £517,812 (2004: £278,151). This increase in turnover was achieved with a series of important new customer wins and by the expansion of our relationships with existing customers. Gross margin strengthened to 66% (2004, 57%) we continue to increase the percentage of overall revenue achieved from the delivery of technical services, which in the period was 36% (2004: 22%).

The business incurred pre-tax losses in the period of £176,284 (2 April 2004 (£66,828)) which is in line with our budget. We have made key investments in sales, marketing and our technical services capability. Intellego is now positioned to grow revenues and take an increasing share of the e-Learning market. As far as we can determine, during the past year your company has grown comparatively at a much faster pace than the UK e-Learning market per-se, thereby increasing its share of a growing market.

Intellego's business to date has been based on exclusive distribution agreements for market leading software products. We have to date, secured over 80 customers the majority of which are large corporate or governmental organisations, including companies in; transport and distribution, telecommunications, local government, higher education, financial services and the travel and leisure sectors. New customers secured in the year include; Securicor, DHL, Xerox, Prudential Property Investment Managers, Wesleyan Assurance, AMEC Group, T-Mobile, TUI, The Open University and Reuters. No one customer represents more than 8% of the Company's sales.

I would like to record my thanks to my fellow directors, the highly dedicated workforce at Intellego and our professional advisers for their collective and individual contributions during the past year.

OUTLOOK

Intellego has a healthy sales pipeline, (which the Chief Executive expands upon in his review of the business), new supplier relationships and new products from existing suppliers all of which firmly positions the Company to be able to increase penetration of the e-Learning market place over the next 12 months.

We are also looking to a near-term acquisition that will enable Intellego to increase its technical services capability into higher value projects. I am pleased to note that several opportunities have been identified and are being evaluated, including the provision of SAP training to major corporations. The prime criteria when considering any acquisition are the enhancement of the existing business and creating value for Intellego shareholders

Michael Couzens – *Chairman*

CHIEF EXECUTIVE'S REPORT

...continuing to maintain the positive sales momentum of the financial year...

Firstly, I would like to echo the Chairman's thanks to my colleagues and our professional advisers, the past year has been one of significant achievement for your young Company.

We are continuing to maintain the positive sales momentum of the financial year just ended. A strong sales pipeline has been built with over 50 new companies, as sales prospects, who are at various stages in their discussions with us. The extensive range of XStream software packages that we provide across the e-Learning spectrum continues to develop with highly useful new features being added. Our ability to offer customers products researched and developed by one of the industry's leading software developers provides us with a significant competitive advantage over our main competitors.

During the year we extended our services offer by providing content development services, based around the XStream technologies, to three of our major customers for their internal software training projects. As a result of these contracts we have established a new line of business, representing almost 10% of our total sales for the year. We expect that Intellego's unique ability to enhance our client's own content development capability will prove to be attractive to new and existing customers. Initial sales as a result of our new relationship with NetDimensions which commenced in June last year have recently expanded to include Learner Management System (LMS) sales to Securicor, Kerry Foods and the British Museum.

During the first quarter of 2005 we evaluated a number of acquisition opportunities with the specific objective of expanding our technical services capacity. Our remit has been to identify businesses with proven skills in working with clients training high-value workforces. Any acquisition will be made in order to secure projects related to the implementation of big ticket business applications. In particular we are looking to tap into the SAP e-Learning solutions market, as SAP is the world's largest business application software company and globally the third largest independent software vendor. SAP lists more than 88,000 software installations for over 26,000 customers in more than 20 countries. 80% of the Fortune Global 1,000 companies run SAP software. *(Source SAP Facts and Figures www.sap.com/investor)*

In line with both of our previous financial periods we expect that emphasis in sales will continue to be weighted towards the second half of the financial year, (October to March). For the foreseeable future we will continue to invest in growing the sales and technical services capability of the enlarged group in order to secure long-term competitive advantage in the markets that we address, whilst maintaining our proven strategy and the attendant operational flexibility of outsourcing all of our non-customer facing activities.

Edward Arnett – *Chief Executive*

REPORT OF THE DIRECTORS

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

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the Company was that of a holding company. The principal activity of the subsidiary company, Intellego Systems Limited, is that of e-Learning specialists and consultants.

The Company was incorporated on 23 August 2004. On 18 October 2004, the Company acquired the entire issued share capital of Intellego Systems Limited through a share for share exchange, the value of the consideration being £100,000. The Company's shares were admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange on 17 December 2004.

In preparing these consolidated financial statements, the directors have adopted the merger basis of accounting and accordingly, the consolidated financial statements include the results for the subsidiary undertaking for the current and previous accounting periods.

RESULTS AND DIVIDENDS

The consolidated profit and loss account for the period is set out on page 10.

The directors do not propose the payment of a dividend.

DIRECTORS

The directors who served during the period were:

E A Arnett	(Appointed 23 August 2004)
M R J Couzens	(Appointed 13 December 2004)
A G P Forrest	(Appointed 13 December 2004)
A L Green	(Appointed 23 August 2004)
C J Saltrick	(Appointed 13 December 2004)

DIRECTORS' INTERESTS

The directors' beneficial interests in the shares of the Company are stated below:

	Ordinary Shares of 0.5p each	
	At 31 March 2005	**At date of appointment**
E A Arnett	10,000,000	–
M R J Couzens	235,294	–
A G P Forrest	470,588	–
A L Green	10,000,000	–
C J Saltrick	150,000	–

In addition, M R J Couzens and A G P Forrest each hold warrants to acquire 470,588 Ordinary 0.5p shares at 4.25p per share, exercisable on or before 31 July 2005 and 17 December 2007 respectively.

A G P Forrest holds an indirect interest in 144,196 Ordinary 0.5p shares through his interest in Billam plc.

CORPORATE GOVERNANCE

Although not required to provide corporate governance disclosures by the AIM rules issued by the London Stock Exchange, the directors recognise the benefits of good governance and endeavour to adopt procedures appropriate to the Group's size and circumstances. In this regard, we have considered the guidance of the Quoted Companies' Alliance with regard to smaller companies wishing to establish governance procedures to comply with those elements of the Combined Code pertinent to the Group's circumstances.

Audit Committee

The audit committee is chaired by A G P Forrest and includes M R J Couzens and C J Saltrick. The committee is primarily responsible for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on and for reviewing reports from the auditors relating to accounting and internal controls.

Remuneration Committee

The remuneration committee is chaired by C J Saltrick and includes M R J Couzens and A G P Forrest. The committee is responsible for determination of the terms, conditions and remuneration of the executive directors.

Going concern

The directors have considered the position of the Company and have a reasonable expectation that the Company will continue in operational existence for the foreseeable future and have therefore used the going concern basis in preparing the financial statements.

Internal controls

The directors acknowledge their responsibility for the Group's system of internal controls. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The directors have appointed non-executive directors to provide objective review of the internal control systems.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period 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 period. 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 departures 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 are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and of 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 of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

POLICY ON PAYMENT OF CREDITORS

The Company and its subsidiaries agree terms and conditions for their transactions with suppliers. Generally payment is made in accordance with these terms. The average number of days for the Group to settle suppliers' invoices in the period was 98 days.

SUBSTANTIAL SHAREHOLDINGS

At 31 May 2005, the Company had been notified that other than the directors, the following were interested in 3% or more of the issued ordinary capital of the Company:

	Number of Ordinary 0.5p Shares	% of Issued Ordinary Capital
R Adams	1,700,000	4.6
Brewin Dolphin Securities	1,647,059	4.5
Billam plc	1,441,965	3.9

AUDITORS

The auditors, Audit Assure, offer themselves for reappointment in accordance with the Companies Act 1985.

By order of the Board

C J Saltrick – *Company Secretary*
31 May 2005

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF INTELLEGO HOLDINGS PLC

We have audited the consolidated financial statements of Intellego Holdings plc for the period ended 31 March 2005 which comprise the profit and loss account, balance sheets, cash flow statement and the related notes. These consolidated financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report and the consolidated financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the statement of directors' responsibilities in the directors' report.

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.

We report to you our opinion as to whether the consolidated 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 director's report is not consistent with the consolidated 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 with the Company is not disclosed.

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

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom 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 consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned 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 consolidated 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 consolidated financial statements.

OPINION

In our opinion the consolidated financial statements give a true and fair view of the state of the affairs of the Company and of the Group as at 31 March 2005 and of the Group's loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

Audit Assure
Chartered Accountants
Registered Auditor
82 St John Street
London
EC1M 4JN

31 May 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

for the period ended 31 March 2005

	Notes	Period ended 31 March 2005 £	Pro-forma Period ended 2 April 2004 £
TURNOVER	2	517,812	278,151
Cost of sales		(176,345)	(118,960)
GROSS PROFIT		341,467	159,191
Administrative expenses		(506,996)	(219,934)
OPERATING LOSS	3	(165,529)	(60,743)
Interest receivable		834	149
Interest payable	4	(11,589)	(6,234)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(176,284)	(66,828)
Taxation	5	–	–
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(176,284)	(66,828)
LOSS PER SHARE – basic	16	(0.84)p	(7.93)p

There are no recognised gains and losses other than those passing through the profit and loss account.

The results for the period derive exclusively from acquired operations.

There is no difference between the results as stated and the historical cost equivalent.

The notes on pages 11 to 22 form an integral part of these financial statements.

BALANCE SHEETS
as at 31 March 2005

	Notes	Group 2005 £	*Group Pro-forma 2004 £*	Company 2005 £
FIXED ASSETS				
Intangible assets	*8*	**22,125**	*28,025*	**–**
Tangible assets	*9*	**64,946**	*26,457*	**–**
Investments	*10*	-	*–*	**100,000**
		87,071	*54,482*	**100,000**
CURRENT ASSETS				
Stock	*11*	**3,996**	*3,500*	**–**
Debtors: Amounts falling due within one year	*12*	**425,700**	*194,117*	**–**
Debtors: Amounts falling due after more than one year	*13*	**–**	*–*	**322,018**
Cash at bank and in hand		**200,477**	*19,030*	**171,728**
		630,173	*216,647*	**493,746**
CREDITORS: amounts falling due within one year	*14*	**(331,731)**	*(192,813)*	**–**
NET CURRENT ASSETS		**298,442**	*23,834*	**493,746**
TOTAL ASSETS LESS CURRENT LIABILITIES		**385,513**	*78,316*	**593,746**
CREDITORS: amounts falling due after more than one year	*15*	**(34,879)**	*(45,144)*	**–**
		350,634	*33,172*	**593,746**
CAPITAL AND RESERVES				
Called up share capital	*17*	**185,000**	*100,000*	**185,000**
Share premium account	*18*	**408,746**	*–*	**408,746**
Profit and loss account	*18*	**(243,112)**	*(66,828)*	**–**
Shareholders' funds – equity interests		**350,634**	*33,172*	**593,746**

Approved by the Board of directors on 31 May 2005 and signed on their behalf by:

E A Arnett – *Director*   **A L Green** – *Director*

The notes on pages 11 to 22 form an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the period ended 31 March 2005

	Notes	2005 £	Pro-forma 2004 £
Net cash outflow from operating activities	*20*	**(247,743)**	*(105,425)*
Returns on investments and servicing of finance	*21*	**(10,755)**	*(6,085)*
Capital expenditure and financial investment	*21*	**(45,698)**	*(62,155)*
Net cash outflow before management of liquid resources and financing		**(304,196)**	*(173,665)*
Financing	*21*	**498,818**	*134,298*
Increase/(decrease) in cash in the period		**194,622**	*(39,367)*

RECONCILIATION OF NET CASH FLOW MOVEMENT IN NET FUNDS/(DEBT)

Increase/(decrease) in cash in the period	**194,622**	*(39,367)*
Cash outflow/(inflow) from decrease/(increase) in debt	**9,929**	*(53,718)*
Change in net debt resulting from cash flows	**204,551**	*(93,085)*
Movement in net debt in the period		
Opening net debt	**(93,087)**	*(2)*
Closing net funds/(debt)	**111,464**	*(93,087)*

The notes on pages 11 to 22 form an integral part of these financial statements.

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

1.1 *Accounting convention*

The consolidated financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

1.2 *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its trading subsidiary undertaking made up to 1 April 2005. Intra-group sales and profits are eliminated fully on consolidation.

The Group has applied merger relief in accounting for acquisitions. In accordance with FRS 6, the assets and liabilities of the Group are stated at net book value and no goodwill arises on consolidation. The results of the subsidiary undertaking have been consolidated using the principle of merger accounting; pro-forma information has been provided for the previous period.

1.3 *Turnover*

Turnover represents amounts receivable for goods and services net of VAT and trade discounts. Turnover is recognised on the delivery of goods or fulfilment of the Company's obligations under agreements of service. Where training or support services are invoiced but not supplied by the period end, the value of these services is recorded in creditors as deferred income.

1.4 *Intangible fixed assets and amortisation*

Acquired distribution rights are amortised to the profit and loss account over the estimated economic life.

1.5 *Tangible fixed assets and depreciation*

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life, as follows:

Fixtures and Fittings	33% reducing balance
Office Equipment:	20% straight line
Improvements to leasehold	Over the term of the lease

1.6 *Investments*

Fixed asset investments are stated at cost, except where in the opinion of the directors, there has been a permanent diminution in the value of an investment.

1.7 *Leasing*

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period.

Rentals payable under operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against income on a straight line basis over the lease term.

1.8 *Stock*

Stock is valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving stock.

1.9 *Deferred taxation*
Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for timing differences arising on revaluations of fixed assets which are not intended to be sold and gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

1.10 *Foreign currency translation*
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to profit and loss account.

2. TURNOVER

The total turnover of the Group for the period has been derived from its principal activity wholly undertaken in the United Kingdom.

3. OPERATING LOSS

	2005 **£**	*Pro-forma 2004 £*
Operating loss is stated after charging:		
Amortisation of intangible fixed assets	**5,900**	*1,475*
Depreciation of tangible assets		
– owned by the company	**5,905**	*4,698*
– held under finance leases	**1,304**	*1,500*
Operating lease rentals		
– other operating leases	**20,549**	*25,490*
Auditors' remuneration	**3,000**	*1,000*

In addition to the auditor's remuneration charged in the profit and loss account, a further amount of £23,000 was paid in connection with the placing and admission to AIM which has been included in share issue costs.

4. INTEREST PAYABLE

	2005 **£**	*Pro-forma 2004 £*
On bank loans and overdrafts	**11,011**	*5,116*
On finance leases and hire purchase contracts	**578**	*1,118*
	11,589	*6,234*

5. TAXATION

On the basis of these financial statements no provision has been made for Corporation Tax due to group trading losses available for relief against the future profits of the Group. At 31 March 2005, the Group had £258,291 of excess trading losses to offset against future profits. There is an unprovided deferred tax asset of approximately £49,000 at 31 March 2005 arising from these losses

The tax assessed for the year is lower than the standard rate of corporation tax in the UK. The difference is explained below:

	2005 **£**	*Pro-forma* *2004* *£*
Loss on ordinary activities multiplied by the relevant standard rate of corporation in the UK of 19% (2004: 19%)	**(33,494)**	*(12,697)*
Effects of:		
Expenses not deductible for tax purposes	**–**	*111*
Capital allowances (in excess of)/in deficit of depreciation and amortisation	**1,370**	*(4,401)*
Tax losses carried forward	**32,124**	*17,015*
Starting rate relief on non-trading profits	**–**	*(28)*
Current tax charge for the year	**–**	*–*

6. PROFIT FOR THE FINANCIAL PERIOD

As permitted by section 230 of the Companies Act 1985, the Holding Company's profit and loss account has not been included in these financial statements.

The parent Company reported neither a profit nor a loss for the period under review.

7. LOSS PER SHARE

The calculation of loss per share is in accordance with Financial Reporting Standing 14 – Earnings Per Share.

	Loss	**2005** **Weighted Average** **Number of shares**	**Loss per** **Share**	*Loss*	*Pro-forma* *2004* *Weighted Average* *Number of shares*	*Loss per* *Share*
Basic	**(176,284)**	**21,013,142**	**0.84p**	*(66,828)*	*842,227*	*7.93p*

There is no difference between the basic earnings per share as shown and the amounts calculated on a fully diluted basis as the exercise of the share options is not dilutive under the terms of FRS 14.

8. INTANGIBLE FIXED ASSETS

	Distribution Rights £
Group	
Cost	
At 3 April 2004 and 31 March 2005	**29,500**
Amortisation	
At 3 April 2004	*1,475*
Charge for the period	*5,900*
At 31 March 2005	**7,375**
Net Book Value	
At 31 March 2005	**22,125**
At 2 April 2004	*28,025*

9. TANGIBLE FIXED ASSETS

	Land and Buildings £	*Furniture, Fittings & Equipment £*	*Total £*
Group			
Cost or valuation			
At 3 April 2004	–	*32,655*	*32,655*
Additions	*16,386*	*29,312*	*45,698*
At 31 March 2005	**16,386**	**61,967**	**78,353**
Depreciation			
At 3 April 2004	–	*6,198*	*6,198*
Charge for the period	–	*7,209*	*7,209*
At 31 March 2005	**–**	**13,407**	**13,407**
Net Book Value			
At 31 March 2005	**16,386**	**48,560**	**64,946**
At 3 April 2004	–	*26,457*	*26,457*

The net book value of assets held under finance leases or hire purchase contracts, included above, are as follows:

	31 March 2005 £	*Pro-forma 2 April 2004 £*
Furniture, fittings and equipment	3,679	4,983

10. FIXED ASSET INVESTMENTS

	Shares in Subsidiary Undertakings £
Company	
Cost	
At 23 August 2004	–
Additions	*100,000*
At 31 March 2005	**100,000**

The Company acquired the entire issued share capital of Intellego Systems Limited on 18 October 2004 through the issue of 100,000 ordinary £1 shares to the holders of the 100,000 ordinary £1 shares in Intellego Systems Limited. The results of the subsidiary have been included in these financial statements under the principles of merger accounting.

Intellego Systems Limited is registered in England Wales and its activities are those of e-Learning specialists and consultants.

In the opinion of the directors, the aggregate value of the Company's investments is not less than the amount included in the balance sheet.

11. STOCKS

	Group 2005 £	*Group Pro forma 2004 £*	**Company 2005 £**
Goods for resale	**3,996**	*3,500*	**–**

12. DEBTORS: amounts falling due within one year

	Group 2005 £	*Group Pro forma 2004 £*	**Company 2005 £**
Called up share capital not paid	**–**	*15,000*	**–**
Trade debtors	**354,301**	*156,178*	**–**
Other debtors	**–**	*2,224*	**–**
Prepayments and accrued income	**71,399**	*20,715*	**–**
	425,700	*194,117*	**–**

Included in trade debtors are amounts totalling £61,048 (2004: £84,271) which are factored.

13. DEBTORS: amounts falling due after more than one year

	Group 2005 £	*Group Pro forma 2004 £*	Company 2005 £
Amounts owed by Group undertakings	**–**	*–*	**322,018**

The amount owed by Group undertakings represents advances made to Intellego Systems Limited. There are no formal terms for repayment and it is not expected that the loan will be repaid in full within one year.

14. CREDITORS: amounts falling due within one year

	Group 2005 £	*Group Pro forma 2004 £*	Company 2005 £
Bank overdraft and loans	**52,438**	*65,613*	**–**
Net obligations under finance lease and hire purchase contracts	**1,696**	*1,360*	**–**
Trade creditors	**47,694**	*45,823*	**–**
Taxes and social security costs	**86,713**	*30,737*	**–**
Other creditors	**2,755**	*21,367*	**–**
Accruals and deferred income	**140,435**	*27,913*	**–**
	331,731	*192,813*	**–**

Included in bank overdraft and loans is a liability of £45,224 (2004: £58,399) which is secured by a debenture over the assets of Intellego Systems Limited dated 15 October 2003. Interest on the outstanding balance is charged at 2.75% above the base rate of Lloyds TSB Bank plc.

15. CREDITORS: amounts falling due after one year

	Group 2005 £	*Group Pro forma 2004 £*	Company 2005 £
Bank loans	**34,879**	*42,084*	**–**
Net obligations under finance leases and hire purchase agreements	**–**	*3,060*	**–**
	34,879	*45,144*	**–**

The bank loan can be analysed as falling due:		
In one year or less, on demand	**7,214**	*7,214*
In more than one year but not more than two years	**7,214**	*7,214*
In more than two years but not more than five years	**21,643**	*21,643*
In more than five years	**6,022**	*13,226*

The bank loan is repayable by monthly instalments, and carries interest at a rate of 3.5% over the base rate of Lloyds TSB Bank plc. The bank loan is secured by way of a debenture over the assets of Intellego Systems Limited.

The finance lease liability is secured on the assets to which it relates.

16. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise borrowings, cash and liquid resources, and various items, such as trade debtors, trade creditors etc., that arise directly from its operations. Trade debtors and creditors are not discussed further in this note.

It is the Group's policy and has been throughout the period that no trading in financial instruments shall be undertaken.

The main risks arising from its financial instruments are interest rate risk, liquidity risk and foreign currency risk. The policies for managing each of these risks adopted during the period are summarised below. These policies have remained unchanged throughout the period.

Interest rate risk

The Group finances its operations through a mixture of bank borrowings, including factoring loans, and equity capital. With the exception of certain small finance lease contracts, all borrowings are at floating rates of interest. The Group does not enter into any interest rate derivative transactions to manage interest rate risk.

Liquidity risk

Short-term flexibility is provided by the use of factoring loans. All eligible sales invoices are factored.

To assist with liquidity, certain of the Group's borrowings are term loans, requiring repayment over seven years.

Foreign currency risk

Most of the training software purchased by the Group for resale to UK customers is purchased from overseas suppliers. These suppliers invoice in US dollars. The Group settles using spot exchange rates; no forward currency contracts are used.

Interest rate risk profile of financial assets and financial liabilities

Financial assets

The Group has no financial assets other than short-term debtors and cash held on bank current account.

Financial liabilities

The interest rate profile of the Group's financial liabilities, ignoring short-term creditors, was as follows (all borrowings in sterling):

	Total	*Floating rate financial liabilities*	*Fixed rate financial liabilities*
	£89,013	£87,317	£1,696

Fixed rate financial liabilities have an annual interest rate of 25.4%, which is fixed for 11 months from 31 March 2005. The floating rate financial liabilities comprise factoring loans and bank borrowings that bear interest at rates between 2.75% and 3.5% above the lender's base rate.

Currency exposures

At 31 March 2005, the Group had monetary liabilities that were not denominated in sterling of £19,135. These liabilities were denominated in US dollars.

Borrowing facilities

The Group had no undrawn borrowing facilities at 31 March 2005.

Fair values of financial assets and liabilities

There was no material difference between the fair values of financial assets and liabilities and their book values at 31 March 2005.

17. SHARE CAPITAL

	2005 £
Authorised	
100,000,000 ordinary shares of 0.5p each	500,000
Allotted called up and fully paid	
37,000,000 ordinary shares of 0.5p each	185,000

The company was incorporated in August 2004 and issued 100,000 ordinary £1 shares as part of an agreement to acquire Intellego Systems Limited. The shares were subdivided into 0.5p shares prior to listing on the Alternative Investment Market in December 2004. A further 15.3 million ordinary 0.5p shares were issued at that time at 4.25p per share realising gross proceeds of £650,250. In March 2005, 1.7 million ordinary 0.5p shares were issued at par under warrants realising total consideration of £8,500.

Warrants exist entitling the holders to acquire 2.35 million ordinary 0.5p shares at a price of 4.25p per share. These are exercisable as follows:

Warrants for 0.47 million ordinary 0.5p shares exercisable on or before 31 July 2005

Warrants for 0.47 million ordinary 0.5p shares exercisable on or before 17 December 2007

Warrants for 1.412 million ordinary 0.5p shares exercisable on or before 17 December 2007

Any warrants which have not been exercised by these dates will lapse.

18. STATEMENT OF MOVEMENTS ON RESERVES

	Group and Company Share Premium Account £	*Group Profit and Loss Account £*
Balance at 3 April 2004	–	*(66,828)*
Retained loss for the period	–	*(176,284)*
Arising on the issue of shares (net of issue expenses)	*408,746*	–
Balance at 31 March 2005	**408,746**	**(243,112)**

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2005 £
Group	
Loss for the financial period	**(176,284)**
Shares issued during the period	**593,746**
Arising on merger accounting	
– Profit and loss reserve (2004)	**(66,828)**
Net additions to shareholders' funds	**350,634**
Opening shareholders' funds	**–**
Closing shareholders' funds	**350,634**
Company	
Issue of ordinary shares and net additions to shareholders' funds.	**593,746**
Opening shareholders' funds	**–**
Closing shareholders' funds	**593,746**

20. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

	2005 £	*Pro-forma 2004 £*
Operating loss	**(165,529)**	*(60,743)*
Depreciation of tangible assets	**7,209**	*6,198*
Amortisation of intangible assets	**5,900**	*1,475*
Increase in stocks	**(496)**	*(3,500)*
Increase in debtors	**(246,586)**	*(179,114)*
Increase in creditors	**151,759**	*130,259*
Net cash outflow from operating activities	**(247,743)**	*(105,425)*

21. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2005 £	Pro-forma 2004 £
Interest received	**834**	*149*
Interest paid	**(11,011)**	*(5,116)*
Finance lease interest paid	**(578)**	*(1,118)*
	(10,755)	*(6,085)*

CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2005 £	Pro-forma 2004 £
Purchase of tangible fixed assets	**(45,698)**	*(32,655)*
Purchase of intangible fixed assets	**–**	*(29,500)*
	(45,698)	*(62,155)*

FINANCING

	2005 £	Pro-forma 2004 £
Issue of ordinary shares	**508,747**	*85,000*
New bank loan	**-**	*49,298*
Principal payment of bank loan	**(7,205)**	–
Principal payment of finance leases	**(2,724)**	–
	498,818	*134,298*

22. ANALYSIS OF NET DEBT

	At 2 April 2004 £	Cash flow £	Other non-cash changes £	At 31 March 2005 £
Net cash:				
Cash at bank and in hand	*19,030*	*181,447*	–	**200,477**
Bank overdrafts	*(58,399)*	*13,175*	–	**(45,224)**
	(39,369)	*194,622*	–	**155,253**
Debt:				
Debts falling due within one period	*(7,214)*	*7,205*	*(7,205)*	**(7,214)**
Finance leases	*(1,360)*	*(336)*	–	**(1,696)**
	(8,574)	*6,869*	*(7,205)*	**(8,910)**
Debt:				
Debts falling due after one period	*(42,084)*	–	*7,205*	**(34,879)**
Finance leases	*(3,060)*	*3,060*	–	**–**
	(45,144)	*3,060*	*7,205*	**(34,879)**
Net Funds/(Debt)	*(93,087)*	*204,551*	–	**111,464**

23. ACQUISITION OF SUBSIDIARY UNDERTAKING

The consideration for the purchase of Intellego Systems Limited comprised shares having an aggregate value of £100,000. The Company has prepared the consolidated financial statements under the principles of merger accounting and accordingly, no fair value adjustments or goodwill arise as part of the consolidation. The assets and liabilities of the subsidiary undertaking have been reported at their carrying values.

24. FINANCIAL COMMITMENTS

At 31 March 2005 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings 2005 £
Expiry Date:	
Within five years	**23,000**

25. DIRECTORS' EMOLUMENTS

	2005 £	*Pro-forma 2004 £*
Emoluments for qualifying services	**78,372**	*27,400*

The highest paid director received £31,000.

No amounts are accruing under money purchase pension schemes on behalf of the directors.

M R J Couzens and A G P Forrest each hold warrants to acquire 470,588 ordinary 0.5p shares at 4.25p, exercisable on or before 31 July 2005 and 17 December 2007 respectively.

26. EMPLOYEES

	2005 Number	*Pro-forma 2004 Number*
Number of employees		
The average monthly number of employees (including directors) during the period was:		
Sales and technical	**7**	*3*

	£	*£*
Employment costs		
Wages and salaries	**291,508**	*105,310*
Social security costs	**31,951**	*9,814*
	323,459	*115,124*

27. RELATED PARTY TRANSACTIONS

The Company is a parent company with one wholly owned subsidiary registered in England and Wales. It has taken advantage of Financial Reporting Standard 8 Related Party Disclosures not to disclose transactions with such wholly owned Group members that have been included in the consolidated financial statements.

During the period, the company acquired the entire issued share capital of Intellego Systems Limited from E A Arnett and A L Green through a share for share exchange.

28. CONTINGENT LIABILITIES

At the balance sheet date, the Group had no known contingent liabilities or commitments other than those shown in the financial statements.

29. ULTIMATE CONTROLLING PARTY

There was no single controlling party throughout the current or previous periods.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the annual general meeting of Intellego Holdings plc will be held at The Lensbury Club, Broom Road, Teddington, Middlesex TW11 9NU on 29 June at Midday for the following purposes:

ORDINARY BUSINESS

To consider and if thought fit, to pass the following resolutions of which resolutions 1 to 4 will be proposed as ordinary resolutions and resolutions 5 and 6 will be proposed as special resolutions:

1. To receive and adopt the company's annual accounts for the financial year ended 31 March 2005 together with the directors' report and the auditors' report on those accounts.

2. To reappoint as a director Michael Reginald Joseph Couzens whose appointment by the board (as a non-executive director) now terminates.

3. To reappoint as a director Angus George Patrick Forrest whose appointment by the board (as a non-executive director) now terminates.

4. To reappoint Audit Assure as auditors to hold office from the conclusion of the meeting to the conclusion of the next meeting at which the accounts are laid before the company at a remuneration to be determined by the directors.

5. To generally and unconditionally authorise the directors for the purposes of 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 that section) provided that this authority is for a period not exceeding 15 months but the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This authority is in substitution for all subsisting authorities, to the extent unused.

6. To, subject to the passing of the previous resolution, empower the directors pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) of the Act) wholly for cash pursuant to the authority conferred by the previous resolution 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 an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their 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 any territory, or the requirements of any regulatory body or stock exchange; and

   (b) Otherwise than pursuant to sub-paragraph (a) above up to an aggregate nominal amount of £50,000;

   and shall expire 15 months after the passing of this resolution save that the company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolution, which will be proposed as a special resolution.

7. THAT the Articles of Association of the Company be amended as follows:

   by deleting in the present Article 18.4, the words "The directors shall not be subject to retirement by rotation" and replacing them with the words "At every annual general meeting one-third of the directors, or if their number is not three or a multiple of three, the number nearest to one-third shall retire from office" and by addition in the heading to the present Article 18.4 of the words "by Rotation" such that the heading shall read "Retirement by Rotation".

By order of the board

Christopher Saltrick FCA – *Company Secretary*

2 June 2005

Registered office:

19 West Street
Epsom
Surrey KT18 7BS

NOTES:

1. A member entitled to attend and vote at the meeting convened by the notice set out above is entitled to appoint a proxy (or proxies) to attend and, on a poll, to vote in his place. A proxy need not be a member of the company.

2. A form of proxy is enclosed. To be effective, it must be deposited at the office of the company's registrars so as to be received not later than 48 hours before the time appointed for holding the annual general meeting. Completion of the proxy does not preclude a member from subsequently attending and voting at the meeting in person if he or she so wishes.

3. The register of interests of the directors and their families in the share capital of the company and copies of contracts of service of directors with the company or with any of its subsidiary undertakings will be available for inspection on any weekday (Saturdays and Public Holidays excluded) from the date of this notice at the Registered Office of the Company, for 15 minutes prior to the commencement of the AGM, and for the duration of the AGM..

4. In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the company's register of members not later than Midday on 27 June 2005 or, if the meeting is adjourned, shareholders entered on the company's register of members not later than 48 hours before the time fixed for the adjourned meeting shall be entitled to attend and vote at the meeting.

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PROFESSIONAL ADVISERS

Nominated Adviser	Beaumont Cornish Limited Georgian House 63 Coleman Street London EC2R 5BB
Broker	HB Corporate 40 Marsh Wall Docklands London E14 9TP
Solicitors to the Company	Vizards Tweedie 42 Bedford Row London WC1R 4JL
Registered Auditors	Audit Assure 82 St John Street London EC1M 4JN
Bankers	Lloyds TSB Bank plc 17 Heath Road Twickenham Middlesex TW1 4AW
Registrars	Computershare Investor Services PLC PO Box 82 The Pavilions Bridgwater Road Bristol BS99 7NH Registrars' Helpline +44 (0)870 702 00 00 (National Rate Call)

Intellego Holdings plc
1 Orlando House
High Street
Teddington
Middlesex
TW11 8LZ

+44 (0)870 428 1250
+44 (0)870 428 1251
investor@intellego-plc.com
www.intellego-plc.com