Intellego Holdings plc

annual report and accounts for the year ended 31 March 2006

what we do

Intellego delivers e-Learning content development and learner management solutions for large and medium sized organisations.

Our customers understand that workforce competence correlates directly to their success in the following operational areas.

- Processes & Systems: Customer Relationship Management (CRM), Enterprise Resource Planning (ERP) software applications and bespoke system software implementations.
- Compliance: Legal, Regulatory, and other "high risk" programmes.
- Communications: time sensitive updates, product launches, employee induction and more...

We help them make that success a reality!

our solutions

design and build

"Rapid" e-Learning content development solutions.

- Products: easy to use, award-winning software that enables our clients to build their own on-line training programmes.
- Services: that support our clients in the development of effective e-Learning including, if required, full-service customised content authoring services.

deliver and manage

Maximising the effectiveness of training with enterprise learner management solutions.

- Products: scalable robust software that unifies the delivery and management of all types of training to the workforce.
- Services: that integrate the learner management system software into the existing enterprise IT infrastructure and the practical advice to make the deployment a success.

"I have found working with Intellego very easy indeed. They are professional in approach providing straight answers to questions in a timely manner. They do whatever it takes to provide a high level of customer service. Their documentation is well articulated and they demonstrate a high level of understanding both of their area of expertise but also with regard to my own business drivers delivering a solution that is fit for purpose."

Stuart Hedley, Learning & Development Manager, EMEA, OKI Europe Ltd

contents

financial highlights

- Revenue up by 19% to £615,198 (2005 £517,812)
- Gross margin stable at 66% (2005 66%)
- Deferred income up by 330%
- Loss before tax £543,565, (2005 £176,284 loss) reflecting significant one-off investment in infrastructure
- Sales revenue from technical services activities increased to 50% of total revenue (2005 36%)

business highlights

- Company has evolved into a full service e-Learning player with a balanced solutions portfolio and revenue profile across three major vendor partnerships, reduced business risk and increased market penetration
- Technical services capacity enhanced by new commercial and technical infrastructure to provide competitive differentiation and added customer satisfaction
- First acquisition made strengthening service capacity in the ERP and Business Automation software training market
- Increased number of bespoke content development projects won

"Our Group has once again delivered revenue and gross profit growth, whilst maintaining the quality of its gross margin. The Board's strategy of expanding both product and service offerings and targeting larger ticket sales, has resulted in the need for greater investment in human resources and business infrastructure. A much higher proportion of service-led training and maintenance contracts secured, is evidenced by a significant increase in the amount of income that has to be treated as deferred – creating a solid foundation for the coming year."

Michael Couzens
Chairman

chairman's statement

our group

This has been a year in which the Group has evolved from a business that had been focussed on the technologies of a single lead vendor, providing "Rapid" authoring tools, into a service-led e-Learning solutions business capable of designing and building business training materials and then enabling the delivery and management of this training. This transition was the cornerstone of our stated strategy when we were admitted to AIM in December 2004.

At the end of June 2005 we announced that we had secured exclusive distribution rights in the United Kingdom and Republic of Ireland, to a suite of systems, training and process documentation authoring software from Team Trainer Net GmbH. These distribution rights combined with the acquisition of Modinex Limited on 1 July 2005, a specialist ERP software implementation and training consultancy, has enabled Intellego to address significantly larger solution software sales opportunities in the ERP and business automation software training markets.

In November 2005 we announced that we had strengthened our relationship with NetDimensions Ltd, our Learning Management Systems (LMS) vendor, with a three-year exclusive contract for UK distribution rights to their solutions suite. This relationship will enable us to establish indirect sales channels for their LMS suite, the "Enterprise Knowledge Platform" (EKP), and provides improved commercial terms for Intellego.

Importantly, in the year we undertook an increased number of custom content development projects for customers, utilising our "Rapid" e-Learning authoring technologies. This growth has been driven largely from our existing "Rapid" authoring tool, for clients with pressing operational needs, who require a fast turnaround on developing a turnkey solution. This line of business represented 13% of our revenue in the year, (2005 10%). We believe this will become an increasingly important element of our business mix, as our clients place greater emphasis on "Rapid" authoring technologies and require assistance in meeting aggressive timelines for the delivery of content for their training projects.

As a consequence of these efforts Intellego now provides full service e-Learning solutions to an increasing number of blue chip clients.

our market

Our market continues to grow. More blue chip corporates have embraced e-Learning and are comfortable purchasing online courseware to train staff in standard IT applications, such as Microsoft Office. This is confirmed by a survey carried out by the Chartered Institute for Personnel Development in 2005 that predicted e-Learning would account for up to 50% of training time by 2009 – up from 10% in 2005.

The Rapid e-Learning sector of the market, which Intellego originally addressed at its AIM launch in 2004, continues to be buoyant and our exclusive distribution contract with XStream Software, for their "Rapid" family of products, enables us to continue to sell aggressively to the large corporate training departments.

However, it is in the upcoming wave of demand for LMS where we see much of our incremental growth. These are web-based software solutions that enable the organisation to deliver e-Learning materials, provide management reports on training activity and, increasingly, the integration of e-Learning and classroom-based training and other personnel management systems. In a recent report Bersin Associates, a leading US based analyst specialising in the e-Learning market, forecast that the strongest growth opportunity for LMS would be in organisations with 1,000 to 10,000 employees, with revenue growth forecasted in excess of 40% during 2006.

our partners

We continue to offer the award-winning products from XStream Software, our longest established partner and NetDimensions, our provider of LMS software.

This year, we have added Team Trainer Net GmbH, whose technologies we have already described above, and Composica, who provide a highly innovative web-based collaborative e-Learning authoring environment.

We selected our vendor partners against rigorous criteria encompassing: technical and functional excellence, minimal overlap with existing partners, attractive commercial terms and, wherever possible, exclusivity.

chairman's statement continued

our results

I am pleased to report that revenue in the year rose by 19% to £615,198, (2005 £517,812). Whilst growth of 19% is less than the historic year on year revenue growth we have previously achieved, it should be noted that as at 31 March 2006 the company has deferred income of £135,588 (2005 £31,349) relating to services to be delivered during the next financial year. This reflects the shift of the business from a revenue mix that historically has been dominated by a single vendor providing project-based solutions, to a lower risk model which now embraces the technologies of three key vendors and enables the business to address the provision of much larger and strategically important workforce training projects. This change of emphasis led to some delays in securing contracts at the end of the calendar year 2005 and at the beginning of 2006, which adversely impacted sales in the second half of the year.

The quality of our gross margin remained stable at 66% (2005 66%) as we continue to increase the percentage of overall revenue achieved from the delivery of technical services which, in the year, was 50% (2005 36%).

We have made significant investments in increasing the size of our sales-force, executing marketing initiatives including attendance at, and sponsorship of, leading UK training industry trade-shows – events which have been successful in surfacing opportunities and building the Intellego brand. In order to support our three main vendor partner products with a broad range of technical services and build competitive differentiation, we have expanded our technical services to include application hosting services, an online training and technical support portal and a web-based project management capability, which allows our customers to follow the progress of their projects. These investments should enable us to underpin our requirement for repeat business, grow revenues and take an increasing share of the e-Learning market. These significant investments for the future resulted in pre-tax losses in the year of £543,565 (2005 £176,284).

At the start of the new financial year, we appointed our first full time Finance Director, Ranjit Roy-Choudhuri, who replaced Christopher Saltrick, the Non-Executive Director responsible for Finance. Recognising the Group's evolution we have refocused the company to win and to deliver long term sustainable growth. In August 2006, Andy Green becomes Group Managing Director with overall responsibility for all new business development in the Group and Edward Arnett, becomes Group Commercial Director responsible for indirect sales channels (the recruitment of additional Value Added Resellers and their subsequent sales performance) and Customer Services (pre-sales support, post-sales technical support and content development services). I should like to thank Edward Arnett for his contribution in leading Intellego through our IPO and the first two years on AIM as well as Chris Saltrick for his contribution and guidance as one of our initial Non-Executive Directors. These changes coupled with the appointment of our first executive Finance Director, sets the foundation for the success of our business going forward.

our future

With the constant pressure for speed-to-market, operational efficiency and increasing regulatory compliance, the need for organisations to train and then to refresh that training increases the requirement for our Rapid e-Learning tools and LMS. Increasingly, however, our clients are turning to us to create training materials for them and a secondary market for outsourced content development is emerging, suddenly and quite quickly. So we are actively looking to acquire content development capability to supplement our organic growth.

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.

Michael Couzens
Chairman

group managing director's report

Firstly, I must add my thanks to those of the Chairman to our shareholders, my colleagues and our professional advisers for their support, efforts and achievements in the past year. Intellego can now provide end-to-end e-Learning solutions to its increasing number of customers the majority of whom are household names.

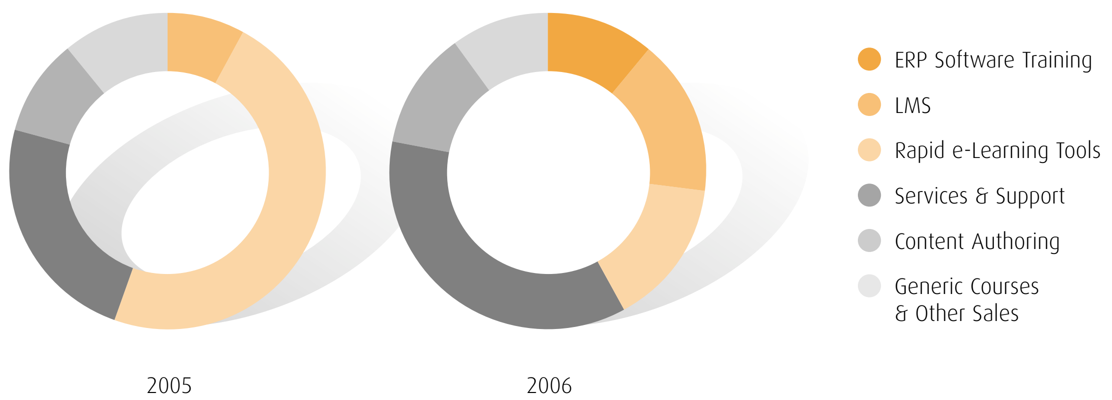
Our customers are mainly service-based organisations facing challenges in providing their workforces with operationally specific training in a timely and cost effective way in order to improve and sustain their competitive advantage. We also see increasing regulation and compliance legislation mandating greater accountability for employers to measure workforce competence, against prescribed frameworks.

A perfect example of this was our recent contract win with the UK's leading one property sales website. Intellego has provided this organisation with an e-Learning authoring and learner management solution to facilitate the training and certification of up to 20,000 users across their UK wide network of member estate agents.

The provision of e-Learning authoring technologies that simulate complex ERP software applications is at the core of our solutions offer. In his report the Chairman highlighted our new relationship with Team Trainer Net GmbH and the acquisition of Modinex Limited which was acquired to strengthen our service capability in this important arena. These initiatives have been validated by a number of important supply contracts, which we have already announced including: Norwich Union, the Spirit Group and Expotel Hotel Reservations .

During the past year an increasing number of our customers have turned to us for assistance in authoring e-Learning content in order to help them meet volume requirements and time-lines. This is a new line of activity for us, but one of increasing importance, based upon our discussions with existing customers and our pipeline of future opportunities. It is also an area that provides Intellego with the opportunity to add more value to our customers and win repeat business.

The increasing diversity of our current revenue mix versus last year is highlighted below. Of particular note is the growth of LMS sales and our continued penetration of the ERP software training market. All services, including content authoring, now account for 50% of our overall revenue.



group managing director's report continued

"The provision of e-Learning authoring technologies that simulate complex ERP software applications is the core of our solutions offer."

In the medium term we believe that much of our incremental growth will be fuelled by the demand for LMS. In the year under review we have made sales of such systems to: OKI, Berwin Leighton and Paisner, Engage Mutual, Kingston Hospital NHS Trust and the NSPCC. Additionally, we have completed a successful pilot with Group 4 Cash Services (formerly Securicor) and we now have an advanced system installed with them serving over 5,000 users. In his report our Chairman also mentioned a recent report from Bersin Associates, which forecast that the strongest growth opportunity for LMS would be in organisations with 1,000 to 10,000 employees. This is an expectation that we see tangible evidence of in our sales pipeline and an opportunity that we are extraordinarily well positioned to address as result of our strong relationship with NetDimensions Ltd. In the 2005 LMS Customer Satisfaction Study, also conducted by Bersin Associates, Net Dimensions Ltd distinguished itself with the highest global LMS customer loyalty of any vendor.

Against this potentially burgeoning market Intellego is well positioned to deliver a comprehensive range of solutions. We have established a strong customer support and technical capability which includes content development services, application hosting and project management.

Our sales opportunity pipeline which is currently at record levels reflects a good balance across our three lead vendor relationships, XStream Software, Team Trainer and NetDimensions plus significant number of bespoke content authoring projects.

We maintain vigilance in relation to acquisition opportunities, in particular those that will enhance our service delivery capability or provide us with significant new target customers, it remains our intention to scale Intellego via carefully selected acquisitions at the appropriate juncture.

Andy Green
Group Managing Director

report of the directors

The directors present their report and consolidated financial statements for the year ended 31 March 2006.

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 companies, Intellego Systems Limited, and Intellego TTS Limited is that of e-Learning specialists and consultants.

results and dividends

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

The directors do not propose the payment of a dividend.

directors

The directors who served during the year were:

E A Arnett	
M R J Couzens	
A G P Forrest	
A L Green	
R Roy-Choudhuri	(Appointed 26 April 2006)
C J Saltrick	(Resigned 26 April 2006)

directors' Interests

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

	Ordinary shares of 0.5p each	
	As at 31 March 2006	As at 31 March 2005
E A Arnett	**10,000,000**	10,000,000
M R J Couzens	**235,294**	235,294
A G P Forrest	**470,588**	470,588
A L Green	**10,000,000**	10,000,000
R Roy-Choudhuri	**–**	–
C J Saltrick	**150,000**	150,000

A G P Forrest holds warrants to acquire 470,588 ordinary 0.5p shares at 4.25p per share, exercisable on or before 17 December 2007 and 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 comprises of the two non-executive directors and is chaired by A G P Forrest. 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 comprises of the two non-executive directors and is chaired by M R J Couzens. 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.

report of the directors continued

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 misstatement 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.

statement of disclosure to auditors

So far as the Directors are aware, there is no relevant audit information of which the Group and Company's auditors are unaware and they have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

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 year was 128 days (2005 98 days).

substantial shareholdings

At 8 August 2006, 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
S P Angel (Nominees) Limited	3,000,000	5.2%
Giltspur Nominees Limited	2,618,059	4.5%

auditors

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

By order of the Board

E A Arnett
Director

17 August 2006

independent auditors' report

independent auditor's report to the shareholders of Intellego Holdings plc

We have audited the group and parent company financial statements of Intellego Holdings plc for the year ended 31 March 2006 set out on pages 10 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Group'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 Group'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 Group and Company and the Group'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 (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).

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 Group 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 Group 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, the Chairman's statement and the Group Managing director's report. 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 an 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 financial statements:

- give a true and fair view, in accordance with the United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 March 2006 and of the group's loss for the year then ended;
- have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the director's report is consistent with the financial statements.

HLB Vantis Audit PLC
Chartered Accountants
Registered Auditor
82 St John Street
London EC1M 4JN

17 August 2006

directors and advisers

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Andrew Green, Group Managing Director
Edward Arnett, Group Commercial Director
Angus Forrest, Non-Executive Director
Ranjit Roy-Choudhuri, ACA, Group Finance Director

company secretary
Ranjit Roy-Choudhuri, ACA

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consolidated profit and loss account

for the year ended 31 March 2006

	notes	**Continuing operations 2006 £**	**Acquisitions 2006 £**	**Group 2006 £**	Group 2005 £
Turnover	2	**615,198**	**–**	**615,198**	517,812
Cost of sales		**(205,143)**	**–**	**(205,143)**	(176,345)
Gross profit		**410,055**	**–**	**410,055**	341,467
Administrative expenses		**(909,325)**	**(23,780)**	**(933,105)**	(506,996)
Operating loss	3	**(499,270)**	**(23,780)**	**(523,050)**	(165,529)
Interest receivable				**315**	834
Interest payable	4			**(20,830)**	(11,589)
Loss on ordinary activities before taxation				**(543,565)**	(176,284)
Taxation	5			**–**	–
Loss on ordinary activities after taxation				**(543,565)**	(176,284)
Loss per share – basic	7			**(1.34p)**	(0.84p)
– fully diluted				**(1.15p)**	(0.70p)

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

The results for the year derive exclusively from continuing and acquired operations.

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

The notes on pages 13 to 23 form an integral part of these financial statements.

balance sheets

as at 31 March 2006

	notes	**Group 2006 £**	Group 2005 £	**Company 2006 £**	Company 2005 £
Fixed assets					
Intangible assets	8	**241,452**	22,125	**–**	–
Tangible assets	9	**118,379**	64,946	**–**	–
Investments	10	**–**	–	**274,089**	100,000
		359,831	87,071	**274,089**	100,000
Current assets					
Stock	11	**19,428**	3,996	**–**	–
Debtors: amounts falling due within one year	12	**579,484**	425,700	**–**	–
Debtors: amounts falling due after more than one year	13	**–**	–	**877,940**	322,018
Cash at bank and in hand		**–**	200,477	**–**	171,728
		598,912	630,173	**877,940**	493,746
Creditors: amounts falling due within one year	14	**(566,430)**	(331,731)	**(704)**	–
Net current assets		**32,482**	298,442	**877,236**	493,746
Total assets less current liabilities		**392,313**	385,513	**1,151,325**	593,746
Creditors: amounts falling due after more than one year	15	**(27,665)**	(34,879)	**–**	–
		364,648	350,634	**1,151,325**	593,746
Capital and reserves					
Called up share capital	17	**235,500**	185,000	**235,500**	185,000
Share premium	18	**762,226**	408,746	**762,226**	408,746
Shares to be issued	18	**153,599**	–	**153,599**	–
Profit and loss account	18	**(786,677)**	(243,112)	**–**	–
Shareholders' funds – equity interests		**364,648**	350,634	**1,151,325**	593,746

Approved by the Board of directors on 17 August 2006 and signed on their behalf by:

E A Arnett
Director

A L Green
Director

The notes on pages 13 to 23 form an integral part of these financial statements.

consolidated cash flow statement

for the year ended 31 March 2006

	notes	2006 £	2005 £
Net cash outflow from operating activities	20	**(439,098)**	(247,743)
Returns on investments and servicing of finance	21	**(20,515)**	(10,755)
Capital expenditure and financial investment	21	**(147,744)**	(45,698)
Net cash outflow before management of liquid resources and financing		**(607,357)**	(304,196)
Financing	21	**389,690**	498,818
(Decrease)/increase in cash in the year		**(217,667)**	194,622

reconciliation of net cash flow to movement in net (debt)/funds

	notes	2006 £	2005 £
(Decrease)/increase in cash in the year		**(217,667)**	194,622
Cash inflow from increase in debt		**8,910**	9,929
Movement in net (debt)/funds in the year		**(208,757)**	204,551
Opening net funds/(debt)	22	**111,464**	(93,087)
Closing net (debt)/funds	22	**(97,293)**	111,464

The notes on pages 13 to 23 form an integral part of these financial statements.

notes to the consolidated financial statements

note 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 undertakings made up to 31 March 2006. Intra-group sales and profits are eliminated fully on consolidation.

The Group has applied merger relief in accounting for acquisition of Intellego Systems Limited during the previous financial year. For acquisitions made in the current financial year acquisition accounting has been used.

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 year 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.

Goodwill arising from the acquisition of subsidiaries is calculated as the difference between the fair value of the consideration paid and the fair value of the net assets acquired at the date of acquisition. Goodwill is capitalised and amortised through the profit and loss account on a straight-line basis over its estimated useful economic life, which is up to 10 years depending on the nature of the business acquired.

Software development costs relate to expenditure on the development of certain new products and service projects where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility. Such expenditure is capitalised and amortised over the expected sales life of the software, generally a period not longer than three years commencing in the year sales of the products are first made.

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	20% straight line
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 years. 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 year.

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.

notes to the consolidated financial statements continued

note 2: turnover: geographic market

	2006 £	2005 £
UK	**580,253**	517,812
Ireland	**34,945**	–
	615,198	517,812

note 3: operating loss

	2006 £	2005 £
Operating loss is stated after charging:		
Amortisation of intangible fixed assets	**11,758**	5,900
Depreciation of tangible assets		
– owned by the company	**22,205**	5,905
– held under finance leases	**–**	1,304
Operating lease rentals		
– other operating leases	**23,000**	20,549
Auditors' remuneration	**15,000**	3,000

note 4: interest payable

	2006 £	2005 £
On bank loans and overdrafts	**20,200**	11,011
On finance leases and hire purchase contracts	**630**	578
	20,830	11,589

note 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 2006, the Group had £740,964 of excess trading losses to offset against future profits.

There are unprovided deferred tax assets of approximately £222,000 at 31 March 2006 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:

	2006 £	2005 £
Loss on ordinary activities multiplied by the relevant standard rate of corporation tax in the UK of 30% (2005 19%)	**(163,070)**	(33,494)
Effects of:		
Expenses not deductible for tax purposes	**22,004**	–
Capital allowances (in excess of)/in deficit of depreciation and amortisation	**(3,655)**	1,370
Tax losses carried forward	**144,721**	32,124
Current tax charge for the year	**–**	–

notes to the consolidated financial statements continued

note 6: loss for the financial year

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 loss for the financial year dealt within the accounts of the parent company was nil (2005 nil).

note 7: loss per share

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

	2006 Loss	**2006 Weighted average number of shares**	**2006 Loss per share**	2005 Loss	2005 Weighted average number of shares	2005 Loss per share
Basic	**(543,565)**	**40,625,000**	**(1.34p)**	(176,284)	21,013,142	(0.84p)
Diluted	**(543,565)**	**47,307,588**	**(1.15p)**	(176,284)	25,066,318	(0.70p)

note 8: intangible fixed assets

Group

	Goodwill £	Distribution rights £	Research and Development £	Total £
Cost:				
At 1 April 2005	–	29,500	–	29,500
Additions	174,064	–	57,021	231,085
At 31 March 2006	**174,064**	**29,500**	**57,021**	**260,585**
Amortisation:				
At 1 April 2005	–	7,375	–	7,375
Charge for the year	1,535	6,144	4,079	11,758
At 31 March 2006	**1,535**	**13,519**	**4,079**	**19,133**
Net book value:				
At 31 March 2006	**172,529**	**15,981**	**52,942**	**241,452**
At 31 March 2005	–	22,125	–	22,125

The goodwill relates to the acquisition of Modinex Limited which is outlined in note 23. Only the non-contingent acquisition costs have been amortised.

notes to the consolidated financial statements continued

note 9: tangible fixed assets

Group

	Leasehold improvements £	Furniture fittings and equipment £	Total £
Cost or valuation:			
At 1 April 2005	16,386	61,967	78,353
Additions	–	75,638	75,638
At 31 March 2006	**16,386**	**137,605**	**153,991**
Depreciation:			
At 1 April 2005	–	13,407	13,407
Charge for the year	3,277	18,928	22,205
At 31 March 2006	**3,277**	**32,335**	**35,612**
Net book value:			
At 31 March 2006	**13,109**	**105,270**	**118,379**
At 31 March 2005	16,386	48,560	64,946

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

	31 March 2006 £	31 March 2005 £
Furniture, fittings and equipment	**–**	3,679

note 10: fixed asset investments

Company

	Shares in subsidiary undertakings £
Cost:	
At 1 April 2005	100,000
Acquisition of Modinex Limited – on completion	20,490
Acquisition of Modinex Limited – contingent element	153,599
At 31 March 2006	**274,089**

All investments are unlisted. The acquisition of Modinex Limited (renamed Intellego TTS Limited) is described in Note 23.

The Group's principal subsidiary undertakings are as follows:

Principal subsidiaries	Country of incorporation	Principal activity	Percentage of ordinary shares held
Intellego Systems Limited	England and Wales	E-Learning services	100%
Intellego TTS Limited	England and Wales	E-Learning services	100%

notes to the consolidated financial statements continued

note 11: stocks

	Group 2006 £	Group 2005 £	**Company 2006 £**	Company 2005 £
Goods for resale	**19,428**	3,996	**–**	–

note 12: debtors: amounts falling due within one year

	Group 2006 £	Group 2005 £	**Company 2006 £**	Company 2005 £
Trade debtors	**480,013**	354,301	**–**	–
Other debtors	**6,455**	–	**–**	–
Prepayments and accrued income	**93,016**	71,399	**–**	–
	579,484	425,700	**–**	–

Included in trade debtors are amounts totalling £66,492 (2005 £61,048) which are factored.

Included in other debtors are amounts owed by E A Arnett (director) of £3,228 (2005 nil) and A L Green (director) of £3,227 (2005 nil). These were the maximum amounts outstanding in the year.

note 13: debtors: amounts falling due after more than one year

	Group 2006 £	Group 2005 £	**Company 2006 £**	Company 2005 £
Amounts owed by Group undertakings	**–**	–	**877,940**	322,108

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.

note 14: creditors: amounts falling due within one year

	Group 2006 £	Group 2005 £	**Company 2006 £**	Company 2005 £
Bank overdraft and loans	**69,628**	52,438	**704**	–
Net obligations under finance lease and hire purchase contracts	**–**	1,696	**–**	–
Trade creditors	**116,000**	47,694	**–**	–
Taxes and social security costs	**88,739**	86,713	**–**	–
Other creditors	**–**	2,755	**–**	–
Accruals and deferred income	**292,063**	140,435	**–**	–
	566,430	331,731	**704**	–

Included in bank overdraft and loans is a liability of £50,899 (2005 £45,224) which is secured by an all asset debenture dated 15 October 2003. Interest on the outstanding balance is charged at 2.75 per cent above the base rate of Lloyds TSB Bank plc.

notes to the consolidated financial statements continued

note 15: creditors: amounts falling due after more than one year

	Group 2006 £	Group 2005 £	Company 2006 £	Company 2005 £
Bank loans	**27,665**	34,879	**–**	–
	27,665	34,879	**–**	–

The bank loan can be analysed as falling due:

	2006 £	2005 £
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	**20,451**	21,643
In more than five years	**–**	6,022

The bank loan is repayable by monthly installments, 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 dated 9 December 2003.

note 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 year 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 year are summarised below. These policies have remained unchanged throughout the year.

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.

notes to the consolidated financial statements continued

note 16: financial instruments continued

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 £
	97,293	97,293	–

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 2006, the Group had monetary liabilities that were not denominated in sterling of £17,413. These liabilities were denominated in US dollars.

borrowing facilities

The Group had no undrawn borrowing facilities at 31 March 2006.

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 2006.

note 17: share capital

	2006 £	2005 £
Authorised 100,000,000 ordinary shares of 0.5p each	**500,000**	500,000
Allotted called up and fully paid 47,100,000 (2005 37,000,000) ordinary shares of 0.5p each	**235,500**	185,000

In July 2005, 2.1 million ordinary 0.5p shares were issued at 5.00p per share realising total consideration of £105,500. A further 7.9 million ordinary 0.5p shares were issued in December 2005 at 4.00p per share realising gross proceeds of £316,000.

Warrants exist entitling the holders to acquire 1.412 million ordinary 0.5p shares at a price of 4.25p per share. These warrants are exercisable on or before 17 December 2007. Any warrants which have not been exercised by these dates will lapse.

The company has one class of ordinary share which carry no right to fixed income.

notes to the consolidated financial statements continued

note 18: statement of movements on reserves

	Group and Company Share premium account £	Group and Company Shares to be issued £	Group Profit and loss account £
Balance at 1 April 2005	408,746	–	(243,112)
Retained loss for the year	–	–	(543,565)
Deferred consideration on the acquisition of Modinex Ltd	–	153,599	–
Arising on the issue of shares (net of issue expenses)	353,480	–	–
Balance at 31 March 2006	**762,226**	**153,599**	**(786,677)**

note 19: reconciliation of movements in shareholders' funds

Group

	2006 £	2005 £
Loss for the financial year	**(543,565)**	(176,284)
Shares issued during the year	**403,980**	593,746
Shares to be issued	**153,599**	–
Arising on merger accounting	**–**	(66,828)
Net additions to shareholders' funds	**14,104**	350,634
Opening shareholders' funds	**350,634**	–
Closing shareholders' funds	**364,648**	350,634

Company

	2006 £	2005 £
Loss for the financial year	**–**	–
Issue of ordinary shares and net additions to shareholders' funds	**557,579**	593,746
Net additions to shareholders' funds	**557,579**	593,746
Opening shareholders' funds	**593,746**	–
Closing shareholders' funds	**1,151,325**	593,746

notes to the consolidated financial statements continued

note 20: reconciliation of operating loss to net cash outflow from operating activities

	2006 **£**	2005 £
Operating loss	**(523,050)**	(165,529)
Depreciation of tangible assets	**22,205**	7,209
Amortisation of intangible assets	**11,758**	5,900
Increase in stocks	**(15,432)**	(496)
Increase in debtors	**(153,784)**	(246,586)
Increase in creditors	**219,205**	151,759
Net cash outflow from operating activities	**(439,098)**	(247,743)

note 21: returns on investments and servicing of finance

	2006 **£**	2005 £
Interest received	**315**	834
Interest paid	**(20,200)**	(11,011)
Finance lease interest paid	**(630)**	(578)
	(20,515)	(10,755)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	**(75,638)**	(45,698)
Expenditure on Research and Development	**(57,021)**	–
Purchase of fixed assets investments	**(15,085)**	–
	(147,744)	(45,698)
Financing:		
Net proceeds on issue of ordinary shares	**398,600**	508,747
Principal payment of bank loan	**(7,214)**	(7,205)
Principal payment of finance leases	**(1,696)**	(2,724)
	389,690	498,818

notes to the consolidated financial statements continued

note 22: analysis of net debt

	At 1 April 2005 £	Cash flow £	Other non-cash changes £	**At 31 March 2006 £**
Net cash:				
Cash at bank and in hand	200,477	(200,477)	–	**–**
Bank overdrafts	(45,224)	(17,190)	–	**(62,414)**
	155,253	(217,667)	–	**(62,414)**
Debt:				
Debts falling due within one year	(7,214)	7,214	(7,214)	**(7,214)**
Finance leases	(1,696)	1,696	–	**–**
	(8,910)	8,910	(7,214)	**(7,214)**
Debt:				
Debts falling due after one year	(34,879)	–	7,214	**(27,665)**
	(34,879)	–	7,214	**(27,665)**
Net funds/(debt)	111,464	(208,757)	–	**(97,293)**

note 23: acquisition of subsidiary undertaking

On 1 July 2005 the Company announced that it had acquired Modinex Limited (now renamed Intellego TTS Limited) in order to provide a more complete service-based solution for training in the business automation software arena. Consideration of £5,380 was settled in new Intellego Holdings Plc shares at completion. A further £153,599 is payable in shares at 30 September 2006 and is contingent on performance criteria. Acquisition costs totalled £15,085. This purchase has been accounted for as an acquisition in these financial statements.

The net assets of Modinex Limited on acquisition were £25 and no fair value adjustments were required. The net assets can be summarised as follows:

Debtors £12,900
Creditors £12,875

The goodwill arising on acquisition in these financial statement totals £174,064 (being the total of the consideration and acquisition costs less net assets at acquisitions). This goodwill will be amortised through the profit and loss account on a straight-line basis over 10 years. In its last financial year to 31 March 2005, Modinex Limited's turnover was £90,806 and operating profit was £54,454. For the 9 months since the date of acquisition the company contributed Nil revenue and an operating loss of £23,780.

note 24: financial commitments

At 31 March 2006 the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings 2006 £	Land and buildings 2005 £
Expiry date:		
Within five years	**23,000**	23,000

notes to the consolidated financial statements continued

note 25: directors' emoluments

	2006 £	2005 £
Emoluments for qualifying services	**171,000**	78,372

The highest paid director received £66,000.

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

note 26: employees

	2006 Number	2005 Number
Number of employees:		
The average monthly number of employees (including directors) during the year was:		
Sales and technical	**7**	3

	£	£
Employment costs:		
Wages and salaries	**437,094**	291,508
Social security costs	**49,315**	31,951
	486,409	323,459

note 27: related party transactions

The Company is a parent company with two wholly owned subsidiaries 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

note 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.

note 29: ultimate controlling party

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

note 30: events after the balance sheet date

In June 2006, 10.5 million ordinary 0.5p shares were issued at 2.00p per share realising gross proceeds of £210,000.

notice of annual general meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Company will be held at 9.30am on 26 September 2006 at the offices of Intellego Holdings Plc, 1 Orlando House, High Street, Teddington, Middlesex, TW11 8LZ for the purpose of considering and, if thought fit, passing the following resolutions 1, 2, 3, 4, 5 and 6 as ordinary resolutions of the Company and 7 as a special resolution of the Company:

ordinary business

1. THAT the audited accounts of the Company for the financial year ended 31 March 2006, the directors' report, auditors' report on those accounts and the report on remuneration be received and adopted.

2. THAT HLB Vantis Audit Plc, be re-appointed auditors of the Company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which audited accounts are laid and to authorise the directors to fix their remuneration.

3. THAT Edward Arnett be re-appointed as a director of the Company in accordance with the Articles of Association of the Company.

4. THAT Andrew Lionel Green be re-appointed as a director of the Company in accordance with the Articles of Association of the Company.

5. THAT Ranjit Roy-Choudhuri who, having been appointed since the last Annual General Meeting be re-appointed as a director of the Company in accordance with the Articles of Association of the Company

special business

6. As an Ordinary Resolution
   THAT in substitution for all existing authorities under that section, the directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 ("the Act") to exercise all the powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of any relevant securities (as defined in Section 80(2) of the Act) of the Company up to a maximum nominal value of £70,000 or 25% of the current issued share capital from time to time to such persons, at such times and generally on such terms and conditions as the directors (subject to the Articles of Association of the Company from time to time) in their absolute discretion may determine during the period commencing on the date of the passing of this resolution and expiring (unless previously renewed, varied or revoked by the Company in general meeting) 15 months from the date of the passing of this resolution or, if earlier, on conclusion of the next Annual General Meeting of the Company save that the Company may make an offer or agreement which would or might require relevant securities to be allotted after the expiry of this authority and the directors may allot relevant securities pursuant to such an offer or agreement as if the authorities hereby conferred have not expired.

7. As a Special Resolution
   THAT in substitution for all existing authorities and subject to the passing of resolution 6 above, the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (within the meaning of Section 94 of the Act) for cash pursuant to the authority conferred by resolution 6 above as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited:
   (a) to the allotment of equity securities in connection with a rights issue in favour of shareholders where the equity securities respectively attributable to the interest of all shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them on the record date for such allotment subject only to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of, any regulatory body, in any territory: or
   (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an amount not exceeding £70,000 or twenty-five per cent of the issued share capital for the time being of the Company
   and shall expire on the date of the next Annual General Meeting of the Company or fifteen months after the passing of this resolution, whichever is earlier, 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 such offer or agreement after such expiry as if the power conferred hereby had not expired.

By order of the Board

R Roy-Choudhuri
Company Secretary

17 August 2006

Registered office:

The White Cottage
19 West Street
Epsom
Surrey KT18 7BS

notice of annual general meeting continued

notes:

1. A member entitled to attend and vote at the Annual General Meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

2. To be effective, the instrument appointing a proxy and any authority under which it is executed (or a notarially certified copy of such authority) must be deposited at the office of the Company's Registrars Computershare Investor Services plc, PO Box 32, The Pavilions, Bridgwater Road, Bristol BS99 7NH not less than 48 hours before the time for holding the meeting. A form of proxy is enclosed with this notice. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting.

3. Copies of all directors' service contracts of more than one year's duration, or where any such contract is not reduced to writing, a memorandum of the terms thereof, will be available for inspection at the registered office of the Company during normal business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the meeting and at the offices of Intellego Holdings Plc, 1 Orlando House, High Street, Teddington, Middlesex, TW11 8LZ for at least 15 minutes prior to and at the meeting.

4. The register of directors' interests maintained by the Company under Section 325 of the Companies Act 1985 shall be produced at the commencement of the meeting and remain open and accessible during the continuance of the meeting to any person attending the meeting.

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