



**SDI GROUP PLC**

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**SDI GROUP PLC**  
ANNUAL REPORT AND ACCOUNTS 2010

## Chairman's Statement

I present SDI's financial results for the year ended 31st March 2010. These results are being presented at the same time as shareholders are being asked to approve an offer for a management buyout, which is considered below.

For the year ended 31 March 2010 revenues were £32.070m, loss before tax pre-exceptional items of £1.143m and a loss before tax post exceptional items of £18.776m. The exceptional loss of £17.633m is largely due to a write down of the carrying value of goodwill attributed the SDI subsidiaries, but also from a default on payments on a completed project and some non-recurring issues.

This compares with the sixteen month period ended 31 March 2009 in which SDI had revenues of £53.145m, loss before tax pre-exceptional items of £495k and a loss before tax post-exceptional items of £1.584m. Cash and cash equivalents have declined to £2.524m from £5.816m.

Accordingly, losses have continued to grow and the Independent Directors feel that there is limited likelihood of a dividend in the medium term.

In the face of the current unprecedented market conditions, the management have diligently counter-acted the difficult trading conditions through reducing overheads, streamlining operations and improving their product offer. However, these results are clearly disappointing and not in line with the original expectations of when the Group was admitted to trading on AIM in July 2007 for the purpose of using Admission to further its strategy to:

- raise its corporate profile;
- consolidate the Group under a listed holding company;
- gain an attractive acquisition currency and grow the business internationally; and
- attract, retain and incentivise key management.

At the time of Admission, the directors were of the opinion that the market in which the SDI operated was likely to continue to grow and that SDI would benefit from this growth. At the same time, the directors had a number of strategic plans to enhance the expansion of SDI Group's business.

Following Admission, the global economy was severely affected by the global economic crisis. The retail sector which is the cornerstone of SDI's client base has been through a difficult period during the past two years, impacting retailers' willingness to spend on capital goods. Decision-making has been very slow and there has been pressure on margins from customers. The recent UK budget increasing VAT and announced public sector deficit cuts are likely to continue the period of uncertainty for retailers and elongate this period of low expenditure by retailers on the provision of the kind of services SDI offers. There is similar uncertainty in SDI's other major markets.

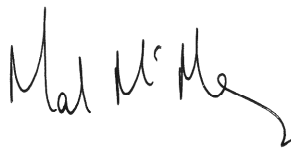
While there will ultimately be an upturn at some point, and the work done by SDI over the last 3 years since its IPO should position it to take advantage of this upturn, there is no certainty when this will happen and whether SDI will be positioned to take advantage of the upturn. Indeed it is difficult to see a substantial improvement in market conditions in the next year and a risk that the trading environment could continue to decline or worsen in the short term.

Following an approach by the Management Team in May 2010, the Independent Directors have weighed the benefits of maintaining an independent London listing against the operational constraints of running a publicly traded company in unprecedented economic circumstances. Detailed discussions have resulted in an indicative offer of 2.6 pence per share and a contingent consideration of up to an additional 0.8 pence per share. Further details of the offer are set out in a Press Announcement released today.

In considering whether to recommend the offer, the Independent Directors have taken account of the recent and current trading record and the projected net tangible assets of the SDI Group at completion. In addition, the Independent Directors have also taken into consideration the fact that no alternative bids were forthcoming and alternative options for raising further capital have been exhausted. Against this background the Independent Directors consider that it is in the best interests of shareholders and have agreed to recommend the management buyout.

## Chairman's Statement

Should the offer become, or be declared unconditional, the non-executive Independent Directors intend to resign from the SDI Board shortly thereafter. The Management Team have significant experience and while there is inherent risk within the business operations given the difficult and challenging trading environment we would wish them well in pursuing the rebuilding of the business in a private environment.

A handwritten signature in black ink, appearing to read 'Mark McMenemy', with a long, sweeping tail that ends in a small arrowhead pointing downwards and to the right.

**Mark McMenemy**

Chairman

22 July 2010

## Board of directors and advisors

### **Mark McMenemy**

#### ***Non-executive Chairman, aged 52***

Mark has been a member of the Chartered Institute of Management Accountants since 1984 and has significant experience in the retail industry. He has held senior directorships at major high street and international retailers and was Group Finance Director at Clarks Shoes, Mothercare and Monsoon. At Monsoon, Mark was responsible for finance, property, legal, logistics and IT. He left Monsoon in March 2007 to pursue an alternative career through Pensive Solutions Ltd, a management consultancy he formed in 2003.

### **Gordon Smith**

#### ***Chief Executive Officer, aged 48***

Having spent a number of years as an international engineering consultant on projects in the Middle East, China and Africa, Gordon spent six years as a senior manager in Exel in key account management and third party logistics. He left Exel to found Greenstone Automation Limited (now called SDI Group UK Limited, a subsidiary of SDI Group plc) in 1997. Gordon holds a Bachelor of Engineering, a Master of Business Administration and is a Chartered Mechanical Engineer.

### **Steve Butler**

#### ***Group Chief Financial Officer, aged 35***

Steve joined SDI in July 2009. Prior to joining SDI, Steve held the position of VP Finance & Commercial with DHL Exel Supply Chain and prior to this was a management consultant with IBM Business Consulting and PricewaterhouseCoopers. Steve qualified as a Chartered Management Accountant with PricewaterhouseCoopers in 2001 and has a degree in Economics, Politics and Geography from the University of Wales, Swansea.

### **Richard Arkle**

#### ***Non-executive Director, aged 61***

Richard Arkle is currently a non-executive director of Volex Group plc, a global manufacturer of cable assembly solutions to the electronic industries. He was a partner at KPMG LLP (and predecessor practices) from 1 October 1982 until he retired on 30 September 2004, where as a senior partner he played a leading role in the development of the Transaction Services practice into a UK market leading position. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

#### **Registered Office**

11 Jarman Way  
Royston  
Hertfordshire SG8 5HW

#### **Registered Company number**

6081771

#### **Independent Auditor**

***PricewaterhouseCoopers LLP***  
Abacus House  
Castle Park  
Cambridge CB3 0AN

#### **Nominated Advisor and Broker**

***Cenkos Securities plc***  
6.7.8 Tokenhouse Yard  
London EC2R 7AS

#### **Solicitors**

***Eversheds LLP***  
Kett House  
Station Road  
Cambridge CB1 2JY

#### **Registrars**

***Computershare Investor Services PLC***  
The Pavillions  
Bridgwater Road  
Bristol BS13 8AE

#### **Financial and Media Public Relations**

***Redleaf Communications Ltd***  
9–13 St Andrew Street  
London EC4A 3AF

## Directors' report

The directors present their Annual Report and audited financial statements for the year ended 31 March 2010. The comparative information is for the 16 month period ended 31 March 2009.

### Principal activity

The principal activity of SDI Group plc ('the Company') and its subsidiaries (together 'the Group') is the provision of integrated materials handling solutions for international retail, fulfilment and e-commerce distribution operations.

### Review of business and future developments

A review of the business during the financial period and to date with comments on future developments is contained in the Chairman's statement.

### Key performance indicators

The Group uses revenue, profit before tax and cash balances as the key performance indicators. These are discussed in the Chairman's statement.

### Results and dividends

The results of the Group appear in detail on pages 10 to 14. The directors are not proposing a final dividend (2009: £nil).

### Donations

There were no charitable or political donations during the year (2009: £nil).

### Directors

The directors who held office during the year were as follows:

|               |  |
|---------------|--|
| Mark McMenemy | (Chairman and Non-executive Director)              |
| Gordon Smith  | (Chief Executive Officer)                          |
| Steve Butler  | (Chief Financial Officer, appointed 1 August 2009) |
| Richard Arkle | (Non-executive Director)                           |
| Gary Pyle     | (Chief Financial Officer, resigned 31 July 2009)   |

The interests of the directors in the shares of the Group are set out in the Report of the Remuneration Committee on pages 7 and 8.

## Directors' report

### **Principal risks and uncertainties**

The management of the business and the execution of the Group's strategy are subject to a number of risks. These risks are formally reviewed by the Board and appropriate processes and controls implemented to monitor and mitigate them. The key business risks affecting the Group are set out below:

#### ***Economic downturn***

As the Group's business is closely correlated to the retail industry, the Group's revenue is linked to consumer spending patterns. An erosion of consumer confidence or a significant decline in consumer spending, particularly in key markets such as the UK and Europe where the Group has substantial business operations, would directly impact on demand for the Group's materials handling solutions and its overall business and operating results. The group manages this risk by the location of its business over a number of European countries, constant dialogue with key customers and suppliers and having appropriate credit policies in place. The directors have reviewed the forecasts and current order backlog and have assessed that the group has sufficient financial resources to continue to trade for at least twelve months from the date of approving the accounts, regardless of whether the group remains public or is taken private.

#### ***Foreign exchange currency risk***

Exchange rates of the European currency in the countries that the Group operates against Sterling are an important factor as the Group will report its Group results in Sterling. The Group's financial results could, therefore, be adversely affected by significant movement of Sterling against the Euro. This would distort the operating results of the subsidiaries of the Group based outside the UK. The group has a natural hedging policy in place by, wherever possible, making sales and purchases in the same currency.

#### ***Dependence on key executives and personnel***

The Group's future success depends on the ability of management and key staff to operate effectively, both individually and as a group. The loss of any member of the Group's senior management could disrupt the business if no immediate suitable replacement is available to the Group and management time is spent on finding replacement candidates. The loss of key individuals could, therefore, have a material adverse effect on the stability of the Group's business and the future of the Group going forward. While the Group has entered into service agreements with each of its executive directors, the retention of their services cannot be guaranteed.

#### ***Competition***

The Company operates in a competitive market and it can be expected that the competition will continue and possibly increase in the future both from established competitors and new entrants to the market. The Group's competitors may include companies with greater financial and other resources than the Company and could compete with the Group for clients and industry personnel. In order to be successful in the future the Group will need to continue to respond promptly and effectively to the challenges of changing customer requirements. An inability to devote sufficient resources to the development of its products and services in order to achieve this, the development of more aggressive competition in the market in which the Group operates and/or the introduction of new entrants into those markets, could lead to a material and adverse effect on the Group's business, financial condition and operating results.

#### ***Creditor payment policy***

The Group seeks to maintain good relations with all its trading partners. In particular, it is the Group's policy to abide by the terms of payment agreed with each of its suppliers. The Group's average creditor payment period at 31 March 2010 was 48 days (31 March 2009: 77) and for the Company was 25 days (31 March 2009: 84).

#### ***Financial risk management***

This is discussed in note 2(r) to the financial statements.

## Directors' report

### Substantial shareholdings

As at 22 June 2010 shareholdings of 3% or more of the issued share capital notified to the Group were:

|                             | Ordinary<br>shares | Percentage<br>holding<br>% |
|-----------------------------|--------------------|----------------------------|
| Gordon Smith                | 17,203,326         | 15.74                      |
| Hargreave Hale Ltd.         | 10,577,272         | 9.68                       |
| Octopus Investments Limited | 7,367,841          | 6.74                       |
| Polar Capital Partners      | 5,700,000          | 5.23                       |
| Darcy De Thierry            | 5,382,477          | 4.93                       |
| Mary Adams                  | 5,243,609          | 4.79                       |
| Donald De Sanctis           | 3,679,948          | 3.37                       |

### Disclosure of information to auditors

Each of the directors have confirmed that there is no relevant audit information of which the Company's auditors are unaware; and each has taken all the steps (such as making enquiries of other directors and the auditors and any other steps required by the directors' duty to exercise due care, skill and diligence) that they ought to have taken in their duty as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Auditors

PricewaterhouseCoopers LLP have indicated their willingness to be reappointed as auditors of the Company and a resolution proposing their reappointment will be put to the Annual General Meeting.

By order of the Board



**Steve Butler**  
Company Secretary  
19 July 2010

## Corporate governance

The Company's shares were admitted to trading on the Alternative Investment Market ('AIM') of the London Stock Exchange on 2 July 2007. The Group is therefore subject to the AIM Admission Rules of the London Stock Exchange and is consequently not required to comply with the best practice Corporate Governance provisions contained within the Combined Code appended to the Listing Rules of the Financial Services Authority. However, the directors have considered the provisions of the 2008 Financial Reporting Council Combined Code and summarise below how the principles have been applied in the Group, and the extent of current compliance.

### **Principles of good governance and code of best practice ('the Combined Code')**

The directors have based their approach to Corporate Governance on those principles of the Combined Code they believe to be appropriate to the Group. The following summary includes details of the Combined Code provisions the Group has complied with and those areas where compliance is not deemed appropriate.

### **The Board**

SDI Group plc is led by an experienced Board. Two out of the current four directors are non-executives, both of whom are independent, retaining the independent representation on the Board. The two independent non-executives own shares in SDI Group plc, but in view of the size of their holdings the Board has concluded that this does not preclude them from being independent as defined under the Code. The Chairman is one of the non-executive directors and there is a clear division of responsibility between the Chairman and the Chief Executive. Under the Company's Articles of Association, at least one-third of the Board is subject to retirement and re-election each year. The Board retains full and effective control of the Group. This includes responsibility for determining the Group's strategy and for approving short and medium term plans for achieving this strategy. All major and other strategic decisions are reserved to the Board which also has responsibility for Corporate Governance matters, approving major items of capital expenditure, senior executive remuneration, succession planning for top management and acquisitions and disinvestment. As appropriate, the Board has delegated certain responsibilities to Board committees, which operate within clearly defined terms of reference. Standing committees of the Board include the Audit Committee, the Nominations Committee and the Remuneration Committee. The Audit Committee consists entirely of non-executive directors both of whom have recent financial experience. The Remuneration Committee and Nominations Committee comprise a majority of non-executive directors. The Board met ten times for regularly scheduled meetings during the year to 31 March 2010. The Board has scheduled ten meetings for the year ending 31 March 2011. At each regularly scheduled meeting, there is a full financial and business review and discussion, including operating performance to date against the annual budget and financial plan previously approved by the Board for that year. Each Board member receives monthly operating results, including a comprehensive commentary and analysis. Prior to each Board meeting, directors are sent an agenda and a full set of Board papers for each agenda item to be discussed at the meeting. Additional information is provided as appropriate. While the Board retains overall responsibility for the control of the Group, daily management is conducted by the Chief Executive Officer and Chief Financial Officer. They meet regularly to review operational decisions, strategic plans and proposals to submit to the Board for approval.

### **Directors' remuneration**

The Remuneration Committee, which consists primarily of non-executive directors, is responsible for making recommendations on the Group's framework of executive remuneration, and for determining specific remuneration packages for each executive director. The Board as a whole determines the remuneration of non-executive directors. A full report on remuneration policy and details of the remuneration of each director can be found in the Report of the Remuneration Committee on pages 7 and 8.

### **Relations with shareholders**

The Annual Report contains information on the activities of the Group for the preceding year and is sent to every shareholder on the share register. The Interim Report is also sent to every shareholder. Management endeavours to keep shareholders informed with regular news releases. All regulatory news releases and reports are available on the Group's website [www.sdigroup.com](http://www.sdigroup.com). The Annual General Meeting ('AGM') is the principal forum for dialogue with shareholders.

## Corporate governance

### Internal control

The directors are responsible for the Group's system of internal control and reviewing its effectiveness. There is an ongoing process for identifying, evaluating and managing the significant risk faced by the Group.

The system of internal control implemented by the Board has been in place for the period since admission and up to the date of approval of these reports and financial statements. It is recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss and manage rather than eliminate the risks associated with the achievement of business objectives. Controls within the Group are designed to provide the Board with reasonable assurance regarding the maintenance of proper accounting records, the reliability of financial information and the safeguarding of assets.

The Group has an appropriate organisational structure with clear lines of responsibility. Because of the size of the current trading operations and the detailed accounting and operational information available, the directors do not believe the expense of an internal audit function is justified.

### Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively;
- 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board



**Steve Butler**

Company Secretary

19 July 2010

## Report of the remuneration committee

The Remuneration Committee is comprised of the following directors:

Mark McMenemy (Chairman of the Remuneration Committee)

Richard Arkle

Gordon Smith

The Remuneration Committee makes recommendations to the Board on the remuneration policy that applies to executive directors and senior employees.

### Remuneration of non-executive directors (unaudited)

The non-executive directors receive fees for their services, which are agreed by the whole Board. They are each appointed by letter of agreement, with the appointment being terminable by one month's notice by either party.

### Remuneration policy for executive directors (unaudited)

The Group's remuneration policy for executive directors is to:

- pay a competitive salary that attracts and retains management of the highest quality having regard to the directors' experience and the nature and complexity of their work;
- link individual remuneration packages to the Group's long term performance through the award of share options; and
- provide employment related benefits including the provision of a Company car or cash alternative, life insurance and medical insurance.

### Basis of preparation of the Remuneration Report (Unaudited)

The Remuneration Report has been prepared on the basis of fees paid to the directors by the Group. The comparative remuneration information includes fees paid by companies for the 16 months ending 31 March 2009.

### Salaries and benefits (Unaudited)

The annual salaries for executive directors are determined by the Remuneration Committee having regard to personal performance.

Full-time executive directors have contracts of service that can be terminated by either party with a notice period not exceeding twelve months.

|  | Salary and<br>benefits<br>£'000 | Compensation<br>for loss of office<br>£'000 | Year ended<br>31 March<br>2010<br>Total<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>Total<br>£'000 |
|--|---------------------------------|---|--|---|
| Mark McMenemy  | 50                              | —   | 50   | 117   |
| Gordon Smith   | 205                             | —   | 205  | 273   |
| Steve Butler (appointed 1 August 2009)                 | 73                              | —   | 73   | —   |
| Richard Arkle  | 30                              | —   | 30   | 40  |
| Gary Pyle (resigned 31 July 2009)                      | 50                              | 63  | 113  | 201   |
| Mary Adams (resigned 28 November 2008)                 | —                               | —   | —  | 112   |
| Dominick Donald De Sanctis (resigned 11 November 2009) | —                               | —   | —  | 48  |
|  | <b>408</b>                      | <b>63</b>                                   | <b>471</b>                                       | <b>791</b>  |

## Report of the remuneration committee

### Directors' interests in shares (Unaudited)

The beneficial interests of directors at the end of the financial period in the ordinary share capital of the Company were as follows:

| Number of shares held by | As at             | As at            |
|--------------------------|-------------------|------------------|
|                          | 31 March<br>2010  | 31 March<br>2009 |
| Mark McMenemy            | <b>200,000</b>    | 200,000          |
| Gordon Smith             | <b>17,203,326</b> | 13,451,184       |
| Steve Butler             | <b>28,043</b>     | —                |
| Richard Arkle            | <b>100,000</b>    | 100,000          |

### Directors' interests in share options (Unaudited)

Details of options over the Company's ordinary shares held by directors under an approved and unapproved share option scheme (the 'Share Option Plan') are as follows:

|            | Options at<br>31 March<br>2009<br>(or date<br>appointed) | Granted | Lapsed    | Options at<br>31 March<br>2010 | Exercise<br>price | Date of<br>of grant | Exercise<br>period |
|------------|--|---------|-----------|--------------------------------|-------------------|---------------------|--------------------|
|            |  |         |           |                                |                   |                     |                    |
| Gary Pyle* | 428,571  | —       | (428,571) | —                              | 49p               | 30 June 2007        | 1 March 2010       |
| Gary Pyle* | 428,571  | —       | (428,571) | —                              | 49p               | 30 June 2007        | 1 March 2011       |
| Gary Pyle  | 500,000  | —       | (500,000) | —                              | 49p               | 25 June 2007        | 25 June 2010       |

\* Subject to the rules of the Share Option Plan and the requirements noted below, each of these options were exercisable on the attainment of the following earnings per share target:

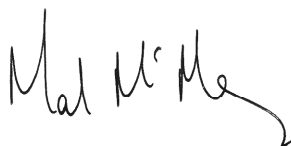
|                             | EPS target |
|-----------------------------|------------|
| Year ended 30 November 2009 | 7.4p       |
| Year ended 30 November 2010 | 8.5p       |

Options are not exercisable later than midnight on the day before the tenth anniversary of the date of grant.

No options have been granted to or exercised to directors between the balance sheet date and the date of approval of the financial statements.

Options were granted at no cost to the directors. At 31 March 2010 the market price of the Company's shares was 2.9p and the range during the financial period was 1.5p to 12.0p.

On behalf of the Board



**Mark McMenemy**

Chairman of the Remuneration Committee

19 July 2010

## Independent auditors' report

to the members of SDI Group plc

We have audited the group financial statements of SDI Group Plc for the year ended 31 March 2010 which comprise the consolidated income statement, consolidated statement of comprehensive income and expense, consolidated balance sheet, consolidated cash flow statement, the consolidated Statement of Changes in Equity, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page six, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31 March 2010 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Other matters

We have reported separately on the parent company financial statements of SDI Group Plc for the year ended 31 March 2010.

Paul Norbury (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge  
22 July 2010

Consolidated income statement  
for the year ended 31 March 2010

|   |      | Year ended<br>31 March<br>2010 | Year ended<br>31 March<br>2010 | Year ended<br>31 March<br>2010 | Sixteen month<br>period ended<br>31 March<br>2009 |
|---|------|--------------------------------|--------------------------------|--------------------------------|---|
|   | Note | £'000                          | £'000                          | £'000                          | £'000   |
| <b>Continuing operations:</b>   |      |                                |                                |                                |   |
| <b>Revenue</b>  |      | <b>32,070</b>                  | <b>—</b>                       | <b>32,070</b>                  | 53,145  |
| Cost of sales   | 5    | (25,551)                       | (639)                          | (26,190)                       | (44,946)  |
| <b>Gross profit</b>   |      | <b>6,519</b>                   | <b>(639)</b>                   | <b>5,880</b>                   | 8,199   |
| Administrative expenses   | 5    | (7,640)                        | (16,994)                       | (24,634)                       | (9,938)   |
| <b>Operating (loss)/profit</b>  | 5    | <b>(1,121)</b>                 | <b>(17,633)</b>                | <b>(18,754)</b>                | (1,739)   |
| Financial income  | 4    | 297                            | —                              | 297                            | 255   |
| Financial expense   | 4    | (319)                          | —                              | (319)                          | (100)   |
| Net finance expense   | 4    | (22)                           | —                              | (22)                           | 155   |
| <b>(Loss)/profit before tax</b>   |      | <b>(1,143)</b>                 | <b>(17,633)</b>                | <b>(18,776)</b>                | (1,584)   |
| Income tax credit/(expense)   | 8    | (41)                           | —                              | (41)                           | 287   |
| (Loss)/profit for the financial period on continuing operations                         |      | (1,184)                        | (17,633)                       | (18,817)                       | (1,297)   |
| <b>Discontinued operations:</b>   |      |                                |                                |                                |   |
| (Loss)/profit on discontinued activities  | 9    | —                              | —                              | —                              | (11,009)  |
| <b>(Loss)/profit for the financial period</b>   |      | <b>(1,184)</b>                 | <b>(17,633)</b>                | <b>(18,817)</b>                | (12,306)  |
| <b>Attributable to:</b>   |      |                                |                                |                                |   |
| Equity shareholders of the Company  |      |                                |                                | (18,907)                       | (12,306)  |
| Minority interest   | 21   |                                |                                | 90                             | —   |
|   |      |                                |                                | (18,817)                       | (12,306)  |
| <b>(Loss)/earnings per ordinary share from continuing operations (expressed in £)</b>   |      |                                |                                |                                |   |
|   | 10   |                                |                                |                                |   |
| – basic   |      |                                |                                | (0.17)                         | (0.01)  |
| – diluted   |      |                                |                                | (0.17)                         | (0.01)  |
| <b>(Loss)/earnings per ordinary share from discontinued operations (expressed in £)</b> |      |                                |                                |                                |   |
| – basic   |      |                                |                                | —                              | (0.10)  |
| – diluted   |      |                                |                                | —                              | (0.10)  |
| <b>Total (loss)/earnings per ordinary share (expressed in £)</b>                        |      |                                |                                |                                |   |
| – basic   |      |                                |                                | (0.17)                         | (0.11)  |
| – diluted   |      |                                |                                | (0.17)                         | (0.11)  |

The notes on pages 15 to 38 are an integral part of these consolidated financial statements.

## Consolidated statement of comprehensive income and expense

for the year ended 31 March 2010

|   | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|---|---|--|
|   | Note                                    |  |
| <b>(Loss)/profit for the financial period</b>             | <b>(18,817)</b>                         | (12,306)   |
| Currency translation differences                          | 20 <b>(805)</b>                         | 4,552  |
| <b>Net income/(expense) recognised directly to equity</b> | <b>(805)</b>                            | 4,552  |
| <b>Total recognised (expense)/income for the period</b>   | <b>(19,622)</b>                         | (7,754)  |
| <b>Attributable to:</b>                                   |   |  |
| Equity shareholders of the Company                        | <b>(19,712)</b>                         | (7,754)  |
| Minority interest   | <b>90</b>                               | —  |
|   | <b>(19,622)</b>                         | (7,754)  |

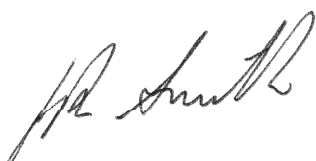
## Consolidated balance sheet

as at 31 March 2010

Company number 06081771

|   | Note | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|---|------|------------------------------------|------------------------------------|
| <b>Assets</b>   |      |                                    |                                    |
| <b>Non-current assets</b>   |      |                                    |                                    |
| Property, plant and equipment   | 11   | 746                                | 1,498                              |
| Intangible assets   | 12   | 114                                | 16,323                             |
| Deferred tax assets   | 18   | 510                                | 12                                 |
|   |      | <b>1,370</b>                       | <b>17,833</b>                      |
| <b>Current assets</b>   |      |                                    |                                    |
| Inventories   | 14   | 1,617                              | 3,173                              |
| Current income tax receivable   |      | —                                  | 220                                |
| Trade and other receivables   | 15   | 5,862                              | 11,169                             |
| Cash and cash equivalents   | 16   | 2,524                              | 5,816                              |
|   |      | <b>10,003</b>                      | <b>20,378</b>                      |
| <b>Total assets</b>   |      | <b>11,373</b>                      | <b>38,211</b>                      |
| <b>Liabilities</b>  |      |                                    |                                    |
| <b>Non-current liabilities</b>  |      |                                    |                                    |
| Deferred tax liability  | 18   | 380                                | —                                  |
|   |      | <b>380</b>                         | <b>—</b>                           |
| <b>Current liabilities</b>  |      |                                    |                                    |
| Trade and other payables  | 17   | 7,944                              | 15,344                             |
| Current income tax liability  |      | 8                                  | 138                                |
| <b>Total liabilities</b>  |      | <b>8,332</b>                       | <b>15,482</b>                      |
| <b>Net assets</b>   |      | <b>3,041</b>                       | <b>22,729</b>                      |
| <b>Equity</b>   |      |                                    |                                    |
| <b>Capital and reserves attributable to equity holders of the Company</b> |      |                                    |                                    |
| Called up share capital   | 19   | 1,092                              | 1,091                              |
| Share premium   |      | 3,953                              | 3,953                              |
| Other reserves  | 20   | 15,965                             | 16,837                             |
| Retained earnings   |      | (18,059)                           | 848                                |
|   |      | <b>2,951</b>                       | <b>22,729</b>                      |
| Minority interest in equity   | 21   | 90                                 | —                                  |
| <b>Total equity</b>   |      | <b>3,041</b>                       | <b>22,729</b>                      |

The notes on pages 15 to 38 are an integral part of these consolidated financial statements. The financial statements on pages 10 to 38 were approved by the Board of directors on 19 July 2010 and were signed on its



**Gordon Smith**  
Director



**Steve Butler**  
Director

## Consolidated statement of changes in equity

|   | Share<br>capital<br>£'000 | Share<br>premium<br>£'000 | Retained<br>earnings<br>£'000 | Other<br>reserves<br>£'000 | Minority<br>interest<br>£'000 | Total<br>£'000 |
|---|---------------------------|---------------------------|-------------------------------|----------------------------|-------------------------------|----------------|
| At 1 December 2007  | 1,061                     | 2,608                     | 13,559                        | 12,820                     | —                             | 30,048         |
| Issue of ordinary shares  | 30                        | 1,350                     | —                             | —                          | —                             | 1,380          |
| Issue cost on share placing                                     | —                         | (5)                       | —                             | —                          | —                             | (5)            |
| Retained (loss)/profit for the period                           | —                         | —                         | (12,306)                      | —                          | —                             | (12,306)       |
| Reverse acquisition reserve released on discontinued operations | —                         | —                         | 577                           | —                          | —                             | 577            |
| Dividends paid  | —                         | —                         | (982)                         | —                          | —                             | (982)          |
| Realised on discontinued operations                             | —                         | —                         | —                             | (577)                      | —                             | (577)          |
| Currency translation differences                                | —                         | —                         | —                             | 4,552                      | —                             | 4,552          |
| Employee share option charge                                    | —                         | —                         | —                             | 42                         | —                             | 42             |
| <b>At 31 March 2009</b>   | <b>1,091</b>              | <b>3,953</b>              | <b>848</b>                    | <b>16,837</b>              | <b>—</b>                      | <b>22,729</b>  |
| Issue of ordinary shares  | 1                         | —                         | —                             | —                          | —                             | 1              |
| Retained (loss)/profit for the period                           | —                         | —                         | (18,907)                      | —                          | 90                            | (18,817)       |
| Currency translation differences                                | —                         | —                         | —                             | (805)                      | —                             | (805)          |
| Employee share option charge                                    | —                         | —                         | —                             | (67)                       | —                             | (67)           |
| <b>At 31 March 2010</b>   | <b>1,092</b>              | <b>3,953</b>              | <b>(18,059)</b>               | <b>15,965</b>              | <b>90</b>                     | <b>3,041</b>   |

Consolidated cash flow statement  
for the year ended 31 March 2010

|   | Note | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|---|------|---|--|
| <b>Cash flows (used in)/from operating activities</b>                 | 24   | <b>(2,243)</b>                          | (223)  |
| <b>Cash generated from operations</b>                                 |      |   |  |
| Interest received   |      | 297                                     | 255  |
| Interest paid   |      | (319)                                   | (100)  |
| Income tax paid   |      | (69)                                    | (754)  |
| Cash flow from operating activities (discontinued operations)         | 9    | —                                       | (4,458)  |
| Net cash (used by)/from operating activities                          |      | <b>(2,334)</b>                          | (5,280)  |
| <b>Cash flows (used in)/from investing activities</b>                 |      | —                                       | —  |
| Purchase of investments in subsidiary companies, net of cash acquired | 26   | (469)                                   | (197)  |
| Purchase of intangible assets   |      | (24)                                    | (215)  |
| Purchase of plant and equipment                                       |      | (150)                                   | (1,001)  |
| Proceeds from sale of plant & equipment                               |      | 85                                      | —  |
| Cash flow used in investing activities (discontinued operations)      | 9    | —                                       | (1,277)  |
| Net cash (used in)/from investing activities                          |      | <b>(558)</b>                            | (2,690)  |
| <b>Cash flows (used in)/from financing activities</b>                 |      |   |  |
| Dividends paid to shareholders  |      | —                                       | (982)  |
| Net cash (used in)/from financing activities                          |      | —                                       | (982)  |
| <b>(Decrease)/increase in cash and cash equivalents</b>               |      | <b>(2,892)</b>                          | (8,952)  |
| Cash and cash equivalents at start of period                          |      | 5,816                                   | 10,137   |
| Exchange differences  |      | (400)                                   | 4,631  |
| <b>Cash and cash equivalents at end of period</b>                     | 16   | <b>2,524</b>                            | 5,816  |

## Notes to the consolidated financial information

### 1 General information

#### **Corporate history**

SDI Group plc ('the Company') was formed as a limited liability company under the name SDI Group Limited on 5 February 2007. It re-registered as a public limited company on 25 June 2007, registered in England. The Company consults, designs, manufactures, and integrates systems to retail, wholesale, fulfilment and e-commerce industries for all aspects of distribution centre materials handling. The Company acquired subsidiary undertakings on 2 July 2007. The results of the acquired subsidiaries are included in the income statement from the date of acquisition. On 22 December 2008 SDI Group plc disposed of its entire holding in SDI Industries, Inc. together with other US subsidiaries. Note 2 below sets out the accounting treatment in respect of this disposal. The subsidiaries and associated undertakings are listed in note 5 of the Company financial statements. The Company, its subsidiaries and its associated undertakings are referred to in this financial information as 'the Group'.

The Company is domiciled in the United Kingdom. The address of its registered office is 11 Jarman Way, Royston, Hertfordshire, SG8 5HW, UK.

### 2 Accounting policies

#### **a) Basis of preparation**

The financial statements are prepared in Sterling, rounded to the nearest thousand and are prepared on the historical cost basis as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through the income statement.

The consolidated financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU), IFRIC interpretations and those sections of the Companies Act 2006 applicable to companies reporting under IFRS.

In the prior year SDI Group plc disposed of its entire holding in SDI Industries, Inc., together with other US subsidiary companies. The results for the disposed subsidiaries are disclosed under "Loss on discontinued operations". The comparative period continuing results reflect 16 months trading of the retained businesses.

#### **b) Critical accounting estimates and judgements**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have significant effect on the financial statements largely related to the estimates used in estimating the percentage completion of construction contracts and income taxes.

##### *i) Revenue recognition*

The Group uses the percentage of completion method in accounting for its fixed price contracts to deliver engineering services. Use of the percentage of completion method requires the Group to estimate the services performed to date as a portion of the total services to be performed. Were the proportion of services performed to total services to be performed to differ by 10% from management's estimates, the amount of revenue recognised in the financial period would be increased or decreased by £1,248,000 (31 March 2009: £1,797,000).

##### *ii) Income taxes*

The Group is subject to income taxes in numerous jurisdictions. Judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such a determination is made.

## Notes to the consolidated financial information

### 2 Accounting policies *continued*

#### c) *Basis of consolidation*

Subsidiaries are entities that are directly or indirectly controlled by the Group. Control exists where the Group has the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. The interest of minority shareholders is stated at the minority's portion of the assets and liabilities recognised.

For acquisitions under common control, the predecessor method of accounting is used whereby the cost of acquisition is measured at the book value of the net assets acquired plus the costs directly attributable to the acquisition. The excess of the cost of acquisition over the Group's share of the book value of the net assets of the subsidiary acquired is recorded as a reduction to reserves.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the assets transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with minority interests as transactions with parties external to the Group.

#### d) *Foreign currencies*

The functional currency of each Group entity is the currency of the primary economic environment in which each entity operates. The consolidated financial statements are presented in Sterling.

Transactions denominated in foreign currencies other than an entity's functional currency are translated at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement except where financing of a foreign subsidiary through long-term loans and deferred trading balances is intended to be as permanent as equity. Such loans and intercompany balances are treated as part of the net assets of the business; any differences arising are dealt with as adjustments to reserves.

The results and financial position of all associated entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- the Group's share of net assets, including goodwill in associates, is translated at the closing rate of exchange at the date of that balance sheet;
- the Group's share of profits and losses are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

#### e) *Property, plant and equipment*

##### *i) Owned assets*

Improvements to leasehold property and plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy on impairment).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

##### *ii) Leased assets for own use*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

##### *iii) Depreciation*

Depreciation is provided on a straight-line basis at rates calculated to write off the cost or valuation less estimated residual value of each asset over its expected useful life as follows:

|                                    |                              |
|------------------------------------|------------------------------|
| Improvements to leasehold property | over the period of the lease |
| Plant and other equipment          | three to ten years           |
| Demonstration assets               | three years                  |

No depreciation is charged on assets in the course of construction.

The residual value and the useful economic life of the assets are reassessed annually.

## Notes to the consolidated financial information

### 2 Accounting policies *continued*

#### **f) Intangible assets**

##### *i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'Intangible assets'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to an entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. An impairment loss is recognised in the income statement based on the amount by which the carrying amount exceeds the recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating unit (or group of units) and then, to reduce the carrying amount of other assets in the unit (or group of units) on a pro rata basis.

##### *ii) Backlog and sales pipeline*

Acquired backlog and sales pipelines for business combinations are capitalised at the present value of the future profits receivable adjusted for deferred taxation. Amortisation is calculated over the life of the contracts on which the goodwill is calculated (0–2 years).

##### *iii) Computer software and licences*

Amortisation is provided on a straight-line basis at rates calculated to write off the cost or valuation less estimated residual value of the asset over their expected useful lives as follows:

|                   |                     |
|-------------------|---------------------|
| Computer software | three to five years |
| Licences          | three to five years |

##### *iv) Research and development*

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- management intends to complete the intangible asset and use or sell it;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible assets during its development can be readily measured.

Amortisation is charged as follows:

|                    |             |
|--------------------|-------------|
| Development assets | three years |
|--------------------|-------------|

Assets subject to amortisation and depreciation are reviewed for impairment at each balance sheet date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is calculated as the greater of their net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

#### **g) Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is calculated using the first-in-first-out principle. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating activity. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

#### **h) Cash and cash equivalents**

Cash and cash equivalents comprises cash balances and deposits. The Group considers all highly-liquid investments with original maturity dates of three months or less to be cash equivalents.

## Notes to the consolidated financial information

### 2 Accounting policies *continued*

#### ***j) Share capital***

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

#### ***j) Dividends***

Final dividends on ordinary shares are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Group's shareholders. Interim dividends are recorded when paid.

#### ***k) Employee benefits***

##### *i) Defined contribution plans*

For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

##### *ii) Share-based compensation*

The fair value as calculated using the black-scholes of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted.

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised. The share option plans are equity settled.

#### ***l) Trade receivables and trade payables***

Trade receivables are stated at cost less any impairment. An impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'Administrative Expenses.' When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'Administrative Expenses' in the income statement. Trade payables are stated at cost.

#### ***m) Financial assets***

The Group classifies its financial assets in the following categories: at fair value through profit and loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

##### *i) Financial assets at fair value through profit and loss*

Financial assets at fair value through profit and loss are financial assets held for trading. A financial asset is classified in this category principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

##### *ii) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current unless management intends to dispose of this investment within twelve months of the balance sheet date.

Available-for-sale financial assets in unlisted securities are initially recorded at cost and reviewed for impairment on an annual basis.

Regular purchases and sales of financial assets are recognised in the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investment have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

## Notes to the consolidated financial information

### 2 Accounting policies *continued*

#### *iii) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

#### *n) Revenue*

Revenue from consulting, design, manufacture and installation of systems and other engineering services is accounted for on a 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the financial period in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

When the outcome of a contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Revenue from maintenance contracts is recognised in the period the services are provided using a straight-line basis over the term of the contract.

#### *o) Expenses*

##### *i) Lease payments*

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease.

Minimum lease payments on assets held under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

##### *ii) Net financing costs*

Net financing costs comprise interest payable on borrowings, interest receivable on cash and cash equivalents and foreign exchange gains and losses.

Interest income and expense is recognised in the income statement as it accrues, using the effective interest method.

#### *p) Taxation*

Income tax comprises current and deferred tax. It is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the financial period, using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### *q) Segment reporting*

IFRS 8 defines operating segments as those activities of an entity about which separate financial information is available and which are evaluated by the Chief Operating Decision Maker to assess performance and determine the allocation of resources. IFRS 8 also sets out the process by which operating segments may be amalgamated into reportable segments because they share the same economic characteristics due to the nature of the products sold, the production processes used and the type of customer for the products.

In adopting IFRS 8 the Board has concluded that the Group has a single reportable segment.

## Notes to the consolidated financial information

### 2 Accounting policies *continued*

#### r) Financial risk management

The overall aim of the Group financial risk management policies is to minimise potential adverse effects on financial performance and net assets. In the course of its business, the Group is exposed primarily to foreign exchange risk, liquidity risk and credit risk. Interest rate risk is not considered significant, as the Group does not have any liabilities that accrue interest and interest income on bank deposits is not material.

The Group manages the principal financial risks within policies and operating parameters approved by the Board of directors. The Group does not enter into speculative transactions.

##### i) Foreign currency risk

The Group operates domestically and overseas and also has investments in overseas entities. The Group does not currently hedge its cash flows or investments in overseas entities as the directors do not believe this to be appropriate given the low materiality of the items involved, but this is continually under review and may change depending on the Group's currency exposure and economic conditions.

At 31 March 2010, if the Euro currency had weakened/strengthened by 10% against Sterling with all other variables held constant, post tax loss for the year would have been higher or lower by £85,000 (2009: £50,000) as a result of foreign exchange gains/losses on translation of Euro denominated intra group borrowings. Equity would have been higher or lower by £306,000 (2009: £231,000) arising from foreign exchange gains/losses on translation of Euro denominated intra group borrowings.

#### r) Financial risk management

##### ii) Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient cash is available to fund on-going operations without the need to carry significant net debt. Where appropriate financing can be negotiated, assets may be purchased under finance lease arrangements. The extent of this financing is not considered material. The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows:

|                                 | Less than<br>1 year<br>£'000 |
|---------------------------------|------------------------------|
| At 31 March 2010                | £'000                        |
| <b>Trade and other payables</b> | <b>7,944</b>                 |
| <hr/>                           |                              |
|                                 | Less than<br>1 year<br>£'000 |
| At 31 March 2009                | £'000                        |
| <b>Trade and other payables</b> | <b>15,344</b>                |

##### iii) Credit risk

Credit risk arises on financial instruments such as trade receivables. Policies and procedures exist to ensure that customers have an appropriate credit history, and appropriate billing schedules for long term contract work are agreed in order to mitigate the risks on this business activity.

Overall, the Group considers that it is not exposed to a significant amount of credit risk.

##### iv) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

During the years ended 31 March 2010 and 31 March 2009 the Group had no net debt.

##### v) Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

#### s) Exceptional items

Exceptional items are events or transactions that fall within the activities of the Group and which by virtue of their size or incidence have been disclosed in order to improve a reader's understanding of the financial statements.

## Notes to the consolidated financial information

### 2 Accounting policies *continued*

#### t) (a) *New standards, interpretations and amendments to published standards effective in the financial statements*

For the purposes of the preparation of these consolidated financial statements, the Group has applied all standards and interpretations that are effective for accounting periods beginning on or after 1 April 2009. The following new standards and amendments to published standards are effective for the Group's accounting period beginning on or after 1 April 2009 and have been adopted during the current year:

- IAS 1 (Revised) "Presentation of Financial Statements";
- IAS 23 (Revised) "Borrowing Costs";
- IAS 32 (Amended) "Financial Instruments: Presentation";
- IFRS 2 (Amended) "Share-based Payment";
- IFRS 7 (Amended) "Financial instruments: Disclosures"; and
- IFRS 8 "Operating Segments"

IAS 23 (Revised), IAS 32 (Amended), IFRS 2 (Amended) and IFRS 7 (Amended) have had no impact on the reported results of the Group. IAS 1 (Revised) has resulted in minor changes in the presentation of two of the primary statements, and the impact of IFRS 8 is set out in Note 3 below.

#### (b) *Standards, interpretations and amendments to published standards that are not yet effective and have not been early adopted by the Group*

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2010 or later periods, and which the Group has not adopted early:

- IAS 27 (Revised) "Consolidated and Separate Financial Statements"
- IAS 39 (Revised) "Financial Instruments: Recognition and Measurement: Eligible Hedged Items"
- IFRS 2 (Amended) "Share-based Payment – Group Cash-settled Share-based Payment Transactions"
- IFRS 3 (Revised) "Business Combinations"
- IFRIC 17 "Distributions of non-cash assets to Owners"
- IFRIC 18 "Transfer of assets From Customers"

The Directors do not anticipate that the adoption of these Standards and Interpretations, where relevant, in future periods will have a material impact on the Group's financial statements.

### 3 Segmental information

The board has concluded that the Group has a single reportable segment and the chief operating decision maker, being the board, manages the group's operations as a whole.

#### *Revenue*

|  | Year ended | Sixteen month<br>period ended |
|--|------------|-------------------------------|
|  | 31 March   | 31 March                      |
|  | 2010       | 2009                          |
|  | £'000      | £'000                         |

#### **Geographical analysis by origin**

|              |               |        |
|--------------|---------------|--------|
| Europe       | <b>32,070</b> | 53,145 |
| <b>Total</b> | <b>32,070</b> | 53,145 |

|  | Year ended | Sixteen month<br>period ended |
|--|------------|-------------------------------|
|  | 31 March   | 31 March                      |
|  | 2010       | 2009                          |
|  | £'000      | £'000                         |

#### **Geographical analysis by destination**

|              |               |        |
|--------------|---------------|--------|
| Europe       | <b>31,890</b> | 53,145 |
| Asia Pacific | <b>180</b>    | —      |
| <b>Total</b> | <b>32,070</b> | 53,145 |

## Notes to the consolidated financial information

### 3 Segmental information *continued* (Loss)/profit before taxation

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| <b>Geographical analysis by origin</b> |   |  |
| Europe                                 | <b>(18,776)</b>                         | (1,584)  |
| <b>Total</b>                           | <b>(18,776)</b>                         | (1,584)  |

One customer accounted for revenue of £4,423,021 which contributed greater than 10% of overall group revenue of £32,070,000 for the year ended 31 March 2010 (16 months ended 31 March 2009 3 customers of £19,792,244).

### Assets

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| <b>Geographical analysis by origin</b> |   |  |
| Europe                                 | <b>11,373</b>                           | 38,211   |
| <b>Total</b>                           | <b>11,373</b>                           | 38,211   |

### Liabilities

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| <b>Geographical analysis by origin</b> |   |  |
| Europe                                 | <b>8,332</b>                            | 15,482   |
| <b>Total</b>                           | <b>8,332</b>                            | 15,482   |

### Capital expenditure

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| <b>Geographical analysis by origin</b> |   |  |
| Europe                                 | <b>200</b>                              | 1,001  |
| <b>Total</b>                           | <b>200</b>                              | 1,001  |

### Depreciation and amortisation

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| <b>Geographical analysis by origin</b> |   |  |
| Europe                                 | <b>16,696</b>                           | 1,237  |
| <b>Total</b>                           | <b>16,696</b>                           | 1,237  |

## Notes to the consolidated financial information

### 4 Net finance income

|                                  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|----------------------------------|---|--|
| Interest expense                 | (319)                                   | (100)  |
| Interest income on bank balances | 297                                     | 255  |
| Net finance income               | (22)                                    | 155  |

### 5 Operating (loss)/profit on ordinary activities before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging:

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| Depreciation of owned tangible fixed assets  | 486                                     | 664  |
| Amortisation of intangible fixed assets  | 59                                      | 108  |
| Cost of sales – exceptional items  |   |  |
| – Impairment of inventory  | 439                                     | —  |
| – Customer settlement  | 200                                     | —  |
| Administrative expenses – exceptional items  |   |  |
| – Impairment of intangible assets  | 15,805                                  | —  |
| – Impairment of fixed assets   | 346                                     | —  |
| – Amortisation charge of backlog and sales pipeline intangible assets from business combinations | —                                       | 465  |
| – Redundancy costs   | 246                                     | 582  |
| – Trade receivable write-off   | 414                                     | —  |
| – Non-recurring legal issues   | 198                                     | —  |
| – Restructuring costs  | 29                                      | —  |
| Operating lease rentals – property   | 645                                     | 743  |
| Operating lease rentals – plant and machinery  | 271                                     | 438  |

Exceptional items during the year include one-off costs associated with a restructuring of the group's activities which will result in reduced overhead costs, the write-off of outstanding balances in relation to a major retail customer which has recently entered administration and has defaulted on payments on a completed projects, costs associated with some non-recurring legal issues and costs related to a customer settlement.

## Notes to the consolidated financial information

### 5 Operating (loss)/profit on ordinary activities before taxation *continued*

#### *Services provided by the Group's auditor and network firms*

During the financial period the Group obtained the following services from the Group's auditors at costs as detailed below:

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| – fees payable to the company's auditors for the audit of the parent company and consolidated financial statements | 59                                      | 60   |
| – audit of the Company's subsidiaries pursuant to legislation  | 29                                      | 20   |
| – tax services   | 8                                       | 2  |
| Fees payable to the company's auditors and its associates for their services                                       | <b>96</b>                               | <b>82</b>  |

### 6 Staff numbers and costs

The average number of persons employed by the continuing operation of the Group (including executive directors) during the financial period was as follows:

|                           | Year ended<br>31 March<br>2010<br>Number | Sixteen month<br>period ended<br>31 March<br>2009<br>Number |
|---------------------------|--|---|
| Total number of employees | <b>217</b>                               | <b>262</b>  |

The areas of the business where these people were employed were as follows:

|                          | Year ended<br>31 March<br>2010<br>Number | Sixteen month<br>period ended<br>31 March<br>2009<br>Number |
|--------------------------|--|---|
| Engineering              | 148                                      | 185   |
| Selling and distribution | 26                                       | 29  |
| Administration           | 43                                       | 48  |
|                          | <b>217</b>                               | <b>262</b>  |

The aggregate payroll costs of these persons were as follows:

|                                       | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|---------------------------------------|---|--|
| Wages and salaries                    | 8,033                                   | 12,922   |
| Social security costs                 | 1,342                                   | 1,932  |
| Employee share option (credit)/charge | (67)                                    | 42   |
| Pensions                              | 187                                     | 273  |
|                                       | <b>9,495</b>                            | <b>15,169</b>  |

## Notes to the consolidated financial information

### 7 Directors' emoluments

Emoluments paid by the Group to the directors were:

|  | Remuneration<br>and benefits<br>for executive<br>services | Share<br>options | Compensation<br>for loss of<br>office | Total      |
|--|---|------------------|---------------------------------------|------------|
| Year ended 31 March 2010 (continuing operations) | £'000   | £'000            | £'000                                 | £'000      |
| M McMenemy                                       | 50  | —                | —                                     | 50         |
| G Smith  | 205   | —                | —                                     | 205        |
| S Butler   | 73  | —                | —                                     | 73         |
| R Arkle  | 30  | —                | —                                     | 30         |
| G Pyle   | 50  | (69)             | 63                                    | 44         |
|  | <b>408</b>  | <b>(69)</b>      | <b>63</b>                             | <b>402</b> |

|  | Remuneration<br>and benefits<br>for executive<br>services | Share<br>options | Compensation<br>for loss of<br>office | Total      |
|--|---|------------------|---------------------------------------|------------|
| Sixteen month period ended 31 March 2009 (continuing operations) | £'000   | £'000            | £'000                                 | £'000      |
| M McMenemy   | 117   | —                | —                                     | 117        |
| G Smith  | 273   | —                | —                                     | 273        |
| G Pyle   | 201   | 53               | —                                     | 254        |
| R Arkle  | 40  | —                | —                                     | 40         |
|  | <b>631</b>  | <b>53</b>        | <b>—</b>                              | <b>684</b> |

|  | Remuneration<br>and benefits<br>for executive<br>services | Share<br>options | Compensation<br>for loss of<br>office | Total      |
|--|---|------------------|---------------------------------------|------------|
| Sixteen month period ended 31 March 2009 (discontinued operations) | £'000   | £'000            | £'000                                 | £'000      |
| M Adams  | 112   | —                | —                                     | 112        |
| D De Sanctis   | 48  | —                | —                                     | 48         |
|  | <b>160</b>  | <b>—</b>         | <b>—</b>                              | <b>160</b> |

No employees other than the directors were identified as key management.

## Notes to the consolidated financial information

### 8 Income tax expense

|  | Year ended<br>31 March<br>2010<br>Continuing<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>Continuing<br>£'000 |
|--|---|--|
| <b>Current tax</b>                                       |   |  |
| Corporation tax on (loss)/profit of the financial period | 161   | (68)   |
| (Over)/under provision previous years                    | (2)   | (30)   |
| <b>Total current tax</b>                                 | <b>159</b>  | <b>(98)</b>  |
| <b>Deferred tax</b>                                      |   |  |
| Origination and reversal of timing differences           | (118)   | (189)  |
| <b>Total deferred tax charge</b>                         | <b>(118)</b>  | <b>(189)</b>   |
| <b>Tax on (loss)/profit on ordinary activities</b>       | <b>41</b>   | <b>(287)</b>   |

The differences between (loss)/profit for the year at the effective standard rate of corporation taxation of 28.8% (31 March 2009: 30.7%) and the taxation charge are detailed below:

|   | Year ended<br>31 March<br>2010<br>Continuing<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>Continuing<br>£'000 |
|---|---|--|
| (Loss)/profit on ordinary activities before tax   | (18,776)  | (1,584)  |
| (Loss)/profit on ordinary activities at the standard tax rates 28.8% (31 March 2009: 30.7%) | (5,407)   | (486)  |
| <b>Effects of:</b>  |   |  |
| Expenses not deductible for tax purposes  | 5,469   | 217  |
| Permanent difference: share option compensation charge                                      | (19)  | 12   |
| (Over)/under provision previous years   | (2)   | (30)   |
| <b>Total tax charge</b>   | <b>41</b>   | <b>(287)</b>   |

The increase in the effective tax rate is due to the change in the mix of country tax rates.

## Notes to the consolidated financial information

### 9 Discontinued operations

On 22 December 2008 SDI Group plc disposed of its entire holding in SDI Industries, Inc., together with other US subsidiary companies. Consequently, the financial results for the year ended 31 March 2010, and the comparative results for the 16 months ended 31 March 2009 disclose the results of the disposed subsidiaries as '(loss)/profit on discontinued activities'. The results of the discontinued operations are as follows:

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| <b>Revenue</b>   | —                                       | 22,974   |
| Expenses   | —                                       | (28,145)   |
| (Loss)/profit before tax on discontinued operations                          | —                                       | (5,171)  |
| <b>Tax</b>   | —                                       | 713  |
| (Loss)/profit after tax on discontinued operations                           | —                                       | (4,458)  |
| Loss recognised on the restatement of assets of disposal group to fair value | —                                       | (6,551)  |
| <b>(Loss)/profit for the period from discontinued operations</b>             | <b>—</b>                                | <b>(11,009)</b>  |

|   | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|---|---|--|
| Cash flow from operating activities (discontinued operations) | —                                       | (4,458)  |
| Cash flow from investing activities (discontinued operations) | —                                       | (1,277)  |
| Cash flow from financing activities (discontinued operations) | —                                       | —  |
| <b>Cash flows from discontinued operations</b>                | <b>—</b>                                | <b>(5,735)</b>   |

### 10 Earnings per share

#### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the financial period.

|   | Year ended<br>31 March<br>2010 | Sixteen month<br>period ended<br>31 March<br>2009 |
|---|--------------------------------|---|
| Continuing operations:                                      |                                |   |
| (Loss)/profit attributable to equity holders in (£'000)     | <b>(18,817)</b>                | (1,297)   |
| Weighted average number of ordinary shares in issue (000's) | <b>109,256</b>                 | 108,261   |
| <b>Basic (loss)/earnings per share in £</b>                 | <b>(0.17)</b>                  | (0.01)  |

|   | Year ended<br>31 March<br>2010 | Sixteen month<br>period ended<br>31 March<br>2009 |
|---|--------------------------------|---|
| Discontinued operations:                                    |                                |   |
| (Loss)/profit attributable to equity holders in (£'000)     | —                              | (11,009)  |
| Weighted average number of ordinary shares in issue (000's) | 109,256                        | 108,261   |
| <b>Basic (loss)/earnings per share in £</b>                 | <b>—</b>                       | (0.10)  |

## Notes to the consolidated financial information

### 10 Earnings per share *continued*

| Total   | Year ended       | Sixteen month                    |
|---|------------------|----------------------------------|
|   | 31 March<br>2010 | period ended<br>31 March<br>2009 |
| (Loss)/profit attributable to equity holders in (£'000)     | <b>(18,817)</b>  | (12,306)                         |
| Weighted average number of ordinary shares in issue (000's) | <b>109,256</b>   | 108,261                          |
| <b>Basic (loss)/earnings per share in £</b>                 | <b>(0.17)</b>    | (0.10)                           |

#### (b) *Diluted*

As the Group is loss making in the financial period there is no dilutive effect relating to the share options.

### 11 Property, plant and equipment

|                                       | Improvements<br>to property<br>£'000 | Plant and<br>machinery<br>£'000 | Fixtures,<br>fittings,<br>tools and<br>equipment<br>£'000 | Motor<br>vehicles<br>£'000 | Demonstration<br>assets<br>£'000 | Total<br>£'000 |
|---------------------------------------|--------------------------------------|---------------------------------|---|----------------------------|----------------------------------|----------------|
| <b>Cost</b>                           |                                      |                                 |   |                            |                                  |                |
| At 1 December 2007                    | 163                                  | 981                             | 888   | 453                        | 383                              | 2,868          |
| Acquisition of subsidiaries (note 26) | —                                    | 734                             | —   | —                          | —                                | 734            |
| Additions                             | 28                                   | 347                             | 309   | 29                         | 288                              | 1,001          |
| Discontinued operations               | (103)                                | (920)                           | (561)   | (364)                      | —                                | (1,948)        |
| Disposals                             | —                                    | —                               | (2)   | —                          | (110)                            | (112)          |
| Exchange differences                  | —                                    | 172                             | 77  | 31                         | 39                               | 319            |
| At 31 March 2009                      | 88                                   | 1,314                           | 711   | 149                        | 600                              | 2,862          |
| Additions                             | —                                    | 50                              | 39  | 93                         | 18                               | 200            |
| Disposals                             | —                                    | —                               | —   | (118)                      | (21)                             | (139)          |
| Exchange differences                  | —                                    | (44)                            | (23)  | (7)                        | (9)                              | (83)           |
| <b>At 31 March 2010</b>               | <b>88</b>                            | <b>1,320</b>                    | <b>727</b>  | <b>117</b>                 | <b>588</b>                       | <b>2,840</b>   |
| <b>Depreciation</b>                   |                                      |                                 |   |                            |                                  |                |
| At 1 December 2007                    | 105                                  | 723                             | 550   | 340                        | —                                | 1,718          |
| Charge for the financial period       | 39                                   | 208                             | 173   | 34                         | 210                              | 664            |
| Acquisition of subsidiaries (note 26) | —                                    | 422                             | —   | —                          | —                                | 422            |
| Discontinued operations               | (92)                                 | (715)                           | (485)   | (310)                      | —                                | (1,602)        |
| Exchange differences                  | —                                    | 96                              | 52  | 14                         | —                                | 162            |
| At 31 March 2009                      | 52                                   | 734                             | 290   | 78                         | 210                              | 1,364          |
| Charge for the financial period       | 9                                    | 214                             | 96  | 13                         | 154                              | 486            |
| Impairment in period                  | 27                                   | 62                              | 13  | —                          | 244                              | 346            |
| Disposals                             | —                                    | —                               | —   | (37)                       | (17)                             | (54)           |
| Exchange differences                  | —                                    | (29)                            | (12)  | (4)                        | (3)                              | (48)           |
| <b>At 31 March 2010</b>               | <b>88</b>                            | <b>981</b>                      | <b>387</b>  | <b>50</b>                  | <b>588</b>                       | <b>2,094</b>   |
| <b>Net book value</b>                 |                                      |                                 |   |                            |                                  |                |
| At 31 March 2009                      | 36                                   | 580                             | 421   | 71                         | 390                              | 1,498          |
| <b>At 31 March 2010</b>               | <b>—</b>                             | <b>339</b>                      | <b>340</b>  | <b>67</b>                  | <b>—</b>                         | <b>746</b>     |

Refer to note 5 for details of the impairments.

## Notes to the consolidated financial information

### 12 Intangible fixed assets

|                                       | Note | Computer software and licences<br>£'000 | Backlog and sales pipeline<br>£'000 | Goodwill on acquisitions<br>£'000 | Development costs<br>£'000 | Total<br>£'000 |
|---------------------------------------|------|---|-------------------------------------|-----------------------------------|----------------------------|----------------|
| <b>Cost</b>                           |      |   |                                     |                                   |                            |                |
| At 1 December 2007                    |      | 58                                      | 852                                 | 14,593                            | 363                        | 15,866         |
| Additions                             |      | 215                                     | —                                   | —                                 | —                          | 215            |
| Acquisitions                          | 26   | 36                                      | 338                                 | 2,124                             | —                          | 2,498          |
| Discontinued operations               |      | —                                       | (47)                                | (2,219)                           | (528)                      | (2,794)        |
| Exchange differences                  |      | 28                                      | —                                   | 1,635                             | 165                        | 1,828          |
| At 31 March 2009                      |      | 337                                     | 1,143                               | 16,133                            | —                          | 17,613         |
| Additions                             |      | 24                                      | —                                   | —                                 | —                          | 24             |
| Exchange differences                  |      | (11)                                    | —                                   | (364)                             | —                          | (375)          |
| <b>At 31 March 2010</b>               |      | <b>350</b>                              | <b>1,143</b>                        | <b>15,769</b>                     | <b>—</b>                   | <b>17,262</b>  |
| <b>Amortisation</b>                   |      |   |                                     |                                   |                            |                |
| At 1 December 2007                    |      | 22                                      | 678                                 | —                                 | —                          | 700            |
| Amortisation for the financial period |      | 108                                     | 465                                 | —                                 | —                          | 573            |
| Exchange differences                  |      | 17                                      | —                                   | —                                 | —                          | 17             |
| At 31 March 2009                      |      | 147                                     | 1,143                               | —                                 | —                          | 1,290          |
| Amortisation for the financial period |      | 59                                      | —                                   | —                                 | —                          | 59             |
| Impairment for the financial period   |      | 36                                      | —                                   | 15,769                            | —                          | 15,805         |
| Exchange differences                  |      | (6)                                     | —                                   | —                                 | —                          | (6)            |
| <b>At 31 March 2010</b>               |      | <b>236</b>                              | <b>1,143</b>                        | <b>15,769</b>                     | <b>—</b>                   | <b>17,148</b>  |
| <b>Net book value</b>                 |      |   |                                     |                                   |                            |                |
| At 31 March 2009                      |      | 190                                     | —                                   | 16,133                            | —                          | 16,323         |
| <b>At 31 March 2010</b>               |      | <b>114</b>                              | <b>—</b>                            | <b>—</b>                          | <b>—</b>                   | <b>114</b>     |

The directors have performed an impairment review of the goodwill. Based on the market value of the group at the year end, the directors consider the goodwill to be impaired.

### 13a Financial instruments by category

The accounting policies for financial instruments have been applied to the line items below:

|                                    | Loans and receivables<br>£'000 | Available-for-sale<br>£'000 | Total<br>£'000 |
|------------------------------------|--------------------------------|-----------------------------|----------------|
| <b>31 March 2010</b>               |                                |                             |                |
| <b>Assets as per balance sheet</b> |                                |                             |                |
| Trade and other receivables        | 5,526                          | —                           | 5,526          |
| Cash and cash equivalents          | 2,524                          | —                           | 2,524          |
| <b>Total</b>                       | <b>8,050</b>                   | <b>—</b>                    | <b>8,050</b>   |
| <b>31 March 2009</b>               |                                |                             |                |
| <b>Assets as per balance sheet</b> |                                |                             |                |
| Trade and other receivables        | 10,733                         | —                           | 10,733         |
| Cash and cash equivalents          | 5,816                          | —                           | 5,816          |
| <b>Total</b>                       | <b>16,549</b>                  | <b>—</b>                    | <b>16,549</b>  |

All liabilities are defined as "other financial liabilities".

## Notes to the consolidated financial information

### 13b Credit quality of financial assets

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates:

|   | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|---|------------------------------------|------------------------------------|
| <b>Counterparties without external credit rating:</b>   |                                    |                                    |
| – new customers (less than 6 months)  | 238                                | 1,995                              |
| – existing customers (more than 6 months) with no defaults in the past                                      | 3,730                              | 5,627                              |
| – existing customers (more than 6 months) with some defaults in the past. All defaults were fully recovered | 25                                 | 335                                |
| – existing customers (more than 6 months) with some defaults in the past. All were provided for in part     | 414                                | —                                  |
| <b>Total trade receivables</b>  | <b>4,407</b>                       | <b>7,957</b>                       |

The group has a bad debt provision of £219,000 at the year-end (£nil at 31 March 2009).

### Cash at bank and short term deposits

|     |              |              |
|-----|--------------|--------------|
| AAA | 113          | 174          |
| AA  | —            | 1,178        |
| AA- | 230          | —            |
| A+  | (267)        | —            |
| A   | 1,255        | 4,156        |
| A-  | 1,193        | 308          |
|     | <b>2,524</b> | <b>5,816</b> |

### 14 Inventories

|                               | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|-------------------------------|------------------------------------|------------------------------------|
| Raw materials and consumables | 1,135                              | 2,002                              |
| Work in progress              | 282                                | —                                  |
| Finished goods                | 133                                | 130                                |
| Long term contract balances   | 67                                 | 1,041                              |
|                               | <b>1,617</b>                       | <b>3,173</b>                       |

The cost of inventories recognised as an expense and included in 'cost of sales' amounted to £7,100,000 (31 March 2009: £16,932,000). Inventories were written down by £439,000 (31 March 2009: £nil).

## Notes to the consolidated financial information

### 15 Trade and other receivables

|  | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|--|------------------------------------|------------------------------------|
| Trade receivables                            | 4,188                              | 7,957                              |
| Related company receivables                  | 19                                 | 204                                |
| Amounts due from customers for contract work | 417                                | 1,933                              |
| Other receivables                            | 900                                | 639                                |
| Loans to related parties                     | 2                                  | —                                  |
| Prepayments                                  | 336                                | 436                                |
|  | <b>5,862</b>                       | <b>11,169</b>                      |

The loans to related parties were unsecured, non-interest bearing and have no fixed terms of repayment. Trade receivables include retentions of £nil (31 March 2009: £nil).

The fair value of trade and other receivables is as in the above table.

As of 31 March 2010, trade receivables of £3,138,000 (31 March 2009: £6,452,000) were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As at 31 March 2010, trade receivables of £1,050,606 (31 March 2009: £1,505,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

|                     | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|---------------------|------------------------------------|------------------------------------|
| Up to three months  | 408                                | 1,171                              |
| Three to six months | 642                                | 334                                |
|                     | <b>1,050</b>                       | <b>1,505</b>                       |

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

|          | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|----------|------------------------------------|------------------------------------|
| Sterling | 2,187                              | 2,489                              |
| Euros    | 3,675                              | 8,680                              |
|          | <b>5,862</b>                       | <b>11,169</b>                      |

### 16 Cash and cash equivalents

|                         | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|-------------------------|------------------------------------|------------------------------------|
| Bonded cash             | 1,035                              | 1,035                              |
| Free cash bank balances | 1,489                              | 4,781                              |
| Bank balances           | 2,524                              | 5,816                              |

## Notes to the consolidated financial information

### 17 Trade and other payables

|                                     | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|-------------------------------------|------------------------------------|------------------------------------|
| Trade payables                      | 3,084                              | 8,265                              |
| Related company payables            | 140                                | 227                                |
| Loans from related parties          | 10                                 | —                                  |
| Advances received for contract work | 1,257                              | 2,378                              |
| Social security and other taxes     | 474                                | 576                                |
| Accruals                            | 2,044                              | 2,364                              |
| Other liabilities                   | 846                                | 976                                |
| Deferred purchase consideration     | 89                                 | 558                                |
|                                     | <b>7,944</b>                       | <b>15,344</b>                      |

### 18 Deferred taxation

Deferred taxation assets and liabilities have been calculated based upon the expected rates at which these amounts would reverse. Deferred taxation assets and liabilities and the movement in these over the financial period are detailed below.

Deferred taxation liabilities/(assets) provided comprise:

|                                   | Note | Short term<br>timing<br>differences<br>£'000 | Accelerated<br>capital<br>allowances<br>£'000 | Enterprise<br>zone credit<br>£'000 | Total<br>£'000 |
|-----------------------------------|------|--|---|------------------------------------|----------------|
| At 30 November 2007               |      | 673  | 144   | (360)                              | 457            |
| Credited to the income statement  |      | (189)  | —   | —                                  | (189)          |
| Acquired on business combinations | 26   | 146  | —   | —                                  | 146            |
| Discontinued operations           |      | (642)  | (144)   | 360                                | (426)          |
| At 31 March 2009                  |      | (12)   | —   | —                                  | (12)           |
| Credited to the income statement  |      | (118)  | —   | —                                  | (118)          |
| <b>At 31 March 2010</b>           |      | <b>(130)</b>                                 | <b>—</b>                                      | <b>—</b>                           | <b>(130)</b>   |

The group has unrecognised deferred taxation assets of £451,000.

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes to be enacted in the Finance (No 2) Act 2010 would be to reduce the deferred tax asset provided at 31 March 2010 by £11,000. This £11,000 decrease in the deferred tax asset would increase loss for the year by £11,000. This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 28 per cent to 27 per cent with effect from 1 April 2011.

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27% to 24%, if these applied to the deferred tax balance at 31 March 2010, would be to reduce the deferred tax asset by £43,000.

## Notes to the consolidated financial information

### 19 Called up share capital

|                          | Number of<br>ordinary shares<br>'000 | Ordinary<br>shares<br>£'000 |
|--------------------------|--------------------------------------|-----------------------------|
| At 1 December 2007       | 106,100                              | 1,061                       |
| Issue of ordinary shares | 2,973                                | 30                          |
| At 31 March 2009         | 109,073                              | 1,091                       |
| Issue of ordinary shares | 200                                  | 1                           |
| <b>At 31 March 2010</b>  | <b>109,273</b>                       | <b>1,092</b>                |

### 20 Other Reserves

|  | Share<br>options<br>£'000 | Other<br>reserves<br>£'000 | Other<br>reserves –<br>associates<br>£'000 | Translation<br>reserve<br>£'000 | Reverse<br>acquisition<br>reserve<br>£'000 | Total<br>£'000 |
|--|---------------------------|----------------------------|--|---------------------------------|--|----------------|
| At 1 December 2007                     | 28                        | (3,998)                    | —  | (1,569)                         | 18,359                                     | 12,820         |
| Realised on discontinued<br>operations | —                         | 3,998                      | —  | —                               | (4,575)                                    | (577)          |
| Currency translation differences       | —                         | —                          | —  | 4,552                           | —  | 4,552          |
| Employee share option charge           | 42                        | —                          | —  | —                               | —  | 42             |
| At 31 March 2009                       | 70                        | —                          | —  | 2,983                           | 13,784                                     | 16,837         |
| Currency translation differences       | —                         | —                          | —  | (805)                           | —  | (805)          |
| Employee share option charge           | (67)                      | —                          | —  | —                               | —  | (67)           |
| <b>At 31 March 2010</b>                | <b>3</b>                  | <b>—</b>                   | <b>—</b>                                   | <b>2178</b>                     | <b>13,784</b>                              | <b>15,965</b>  |

### 21 Minority interest

|  | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|--|------------------------------------|------------------------------------|
| At beginning of financial period         | —                                  | —                                  |
| Retained profit for the financial period | 90                                 | —                                  |
| <b>At end of financial period</b>        | <b>90</b>                          | <b>—</b>                           |

The minority interest was a company incorporated jointly by SDI Group UK Limited and former management and commenced trading on 1 April 2009.

## Notes to the consolidated financial information

### 22 Share Options

Share options are granted to directors and to selected employees. All options are equity settled. The exercise price of all granted options in the period 1 April 2009 to 31 March 2010 is as the following table. Options awarded are exercisable as described below. Movements in the number of share options outstanding are as follows:

|                                   | As at<br>31 March<br>2010<br>Number<br>of options<br>'000s | As at<br>31 March<br>2009<br>Number<br>of options<br>'000s |
|-----------------------------------|--|--|
| At beginning of financial period  | 1,807  | 2,211  |
| Granted                           | 250  | 250  |
| Lapsed                            | (1,557)  | (654)  |
| <b>At end of financial period</b> | <b>500</b>   | <b>1,807</b>   |

There were no options exercised in the period 1 April 2009 to 31 March 2010 (31 March 2009: nil). No options were exercisable at 31 March 2010.

The 500,000 options outstanding at 31 March 2010 were granted as follows:

| Grant date                           | 5 February<br>2009† | 14 April<br>2009† |
|--------------------------------------|---------------------|-------------------|
| Share price at grant date            | £0.03               | £0.03             |
| Exercise price                       | £0.03               | £0.03             |
| Number of options originally granted | 250,000             | 250,000           |
| Vesting period                       | 3 yrs               | 3 yrs             |
| Expected volatility*                 | 54%                 | 71%               |
| Contractual option life              | 10 yrs              | 10 yrs            |
| Expected life                        | 3 yrs               | 3 yrs             |
| Risk-free rate                       | 5.0%                | 5.0%              |
| Expected dividend yield              | 0%                  | 0%                |
| Expected forfeitures                 | 0%                  | 0%                |
| Fair value per option                | £0.01               | £0.03             |

\* The expected volatility is estimated based on the volatility of the share price since listing benchmarked against the volatility of competitors in the same market. The history of SDI Group was felt to be unrepresentative because it was a short period so a rate of 15% was used. The expected life is considered to be equal to the vesting period. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life.

† These options are subject to the rules of the Share Option Plan and the requirements noted below, each of these options were exercisable on the attainment of a specified earnings per share target for the preceding year.

Options are not exercisable later than midnight on the day before the tenth anniversary of the date of grant. No options have been granted to or exercised by directors between the balance sheet date and the date of approval of the financial statements. Options were granted at no cost to the directors. At 31 March 2010 the market price of the Company's shares was 2.9p and the range during the financial period was 1.5p to 12.0p.

The total fair value of the share options is £9,975 which is recognised as an expense over the vesting period. At 31 March 2010, £3,325 has been recognised as an expense.

Mike Hilton waived entitlement to the options above on 15 July 2010.

## Notes to the consolidated financial information

### 23 Financial instruments

The Group has no derivative financial instruments and does not hedge its investments in overseas entities. Disclosures in relation to the Group's non-derivative financial instruments are set out below.

#### *Short term receivables and payables*

Short term receivables and payables have been excluded from the fair value disclosures, as the carrying value is considered to be an appropriate approximation to fair value.

#### *Interest rate risk profile of financial assets and liabilities*

The Group has no financial liabilities as all the Group's creditors falling due within one year do not meet the definition of a financial liability.

The interest rate risk profile of the Group's financial assets for the financial period was:

#### *Financial assets*

The Group has no financial assets which earn interest other than cash, which earns interest at a floating rate.

#### *Borrowing facilities*

The Group has no undrawn committed borrowing facilities in any of the years presented.

### 24 Cash flow generated from operations

|  | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|--|---|--|
| (Loss)/profit before income tax                                | <b>(18,776)</b>                         | (1,584)  |
| Adjustments for:   |   |  |
| Amortisation of intangible assets                              | <b>59</b>                               | 573  |
| Impairment of intangible assets                                | <b>15,805</b>                           | —  |
| Depreciation of tangible fixed assets                          | <b>486</b>                              | 664  |
| Employee share option (credit)/charge                          | <b>(67)</b>                             | 42   |
| Loss on the disposal of plant, property and equipment          | —                                       | 112  |
| Impairment of plant, property and equipment                    | <b>346</b>                              | —  |
| Interest expense   | <b>319</b>                              | 100  |
| Interest income  | <b>(297)</b>                            | (255)  |
| Changes in working capital:                                    |   |  |
| (Increase)/decrease in inventories                             | <b>1,556</b>                            | (2,578)  |
| (Increase)/decrease in trade and other receivables             | <b>5,307</b>                            | (6,527)  |
| Increase/(decrease) in trade and other payables                | <b>(6,981)</b>                          | 9,230  |
| <b>Total net cash flow (used in)/generated from operations</b> | <b>(2,243)</b>                          | (223)  |

## Notes to the consolidated financial information

### 25 Operating lease commitments

The future minimum lease payments in respect of non-cancellable leases for property, plant and machinery are as follows:

|                         | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|-------------------------|------------------------------------|------------------------------------|
| <b>Expiring within:</b> |                                    |                                    |
| One year                | 762                                | 645                                |
| Two to five years       | 2,247                              | 2,435                              |
| More than five years    | 292                                | 574                                |
|                         | <b>3,301</b>                       | <b>3,654</b>                       |

The Group leases office and workshop facilities in various locations under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The Group also leases various plant and machinery under cancellable operating lease agreements. The lease expenditure charged to the income statement during the financial period is disclosed in note 5.

### 26 Business combinations during the prior period

On 11 April 2008, SDI Group plc exchanged 2,973,077 shares, and £803,000 cash for 100% of the voting shares of PEP Fordertechnik GmbH, PEP Anlagenbau GmbH, PEP Systemtechnik GmbH and Innova Plast Kunststofftechnik GmbH, a group of privately held, Germany based companies. The acquisition was accounted for in accordance with IFRS 3, 'Business Combinations' using the purchase method. The fair value of the shares is taken as the price on the date of completion.

The acquired businesses contributed revenues of £12,429,000 and loss before tax after the amortisation of the backlog and contract pipeline of £72,000 to the Group for the period 11 April 2008 to 31 March 2009.

Details of net assets acquired and goodwill are as follows:

|  | £'000 |
|--|-------|
| Purchase consideration:                    |       |
| – fair value of shares issued              | 1,375 |
| – fair value of cash paid                  | 803   |
| – direct costs relating to the acquisition | 133   |
| Total purchase consideration               | 2,311 |
| Fair value of net assets acquired          | (187) |
| Goodwill                                   | 2,124 |

The consideration includes deferred consideration of £558,000. £469,000 was paid during the year ended 31 March 2010 with the balance of £89,000 being payable in the year ending 31 March 2011.

The goodwill is attributable to the workforce of the acquired businesses.

Goodwill is determined provisionally on these fair values. IFRS 3 allows twelve months for the finalisation of the goodwill calculation in order to adjust for estimates such as taxation. Management do not expect any significant changes.

## Notes to the consolidated financial information

### 26 Business combinations during the prior period *continued*

The assets and liabilities as of 11 April 2008 arising from the acquisition of PEP Fordertechnik GmbH, PEP Anlagenbau GmbH, PEP Systemtechnik GmbH and Innova Plast Kunststofftechnik GmbH are as follows:

|                               | Fair<br>value<br>£'000 | Acquiree's<br>carrying<br>amount<br>£'000 |
|-------------------------------|------------------------|---|
| Cash and cash equivalents     | 739                    | 739                                       |
| Property, plant and equipment | 311                    | 128                                       |
| Intangible assets             | 344                    | 6   |
| Inventories                   | 427                    | 427                                       |
| Trade and other receivables   | 1,805                  | 1,805                                     |
| Trade and other payables      | (3,293)                | (3,293)                                   |
| Deferred tax liability        | (146)                  | —   |
| <b>Net assets acquired</b>    | <b>187</b>             | <b>(188)</b>                              |

The fair value of the intangible assets includes £338,000 for the valuation of the backlog and sales pipeline and the fair value of the tangible assets includes £183,000 for tooling.

### 27 Related party transactions

The following transactions were carried out with related parties:

#### *i) Sales of goods and services*

|   | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|---|---|--|
| Discontinued operations                         | —                                       | 1,278  |
| Entities controlled by key management personnel | 11                                      | 42   |
|   | <b>11</b>                               | <b>1,320</b>   |

Sales of goods and services are negotiated with related parties on normal business terms. The entities controlled by key management personnel are various companies controlled by Mr G Smith and directors of the Group during the period.

#### *ii) Purchases of goods and services*

|   | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|---|---|--|
| Discontinued operations                         | —                                       | 584  |
| Entities controlled by key management personnel | 922                                     | 1,000  |
|   | <b>922</b>                              | <b>1,584</b>   |

Purchases of goods and services are negotiated with related parties on normal business terms. The entities controlled by key management personnel are various companies controlled by Mr G Smith and directors of the Group during the period.

## Notes to the consolidated financial information

### 27 Related party transactions *continued*

#### *iii) Year-end balances arising from sales/purchases of good and services*

|   | Note | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|---|------|------------------------------------|------------------------------------|
| Receivables from related parties:               | 15   |                                    |                                    |
| Discontinued operations                         |      | —                                  | 190                                |
| Entities controlled by key management personnel |      | 19                                 | 14                                 |
|   |      | 19                                 | 204                                |
| Payables to related parties:                    | 17   |                                    |                                    |
| Discontinued operations                         |      | —                                  | 114                                |
| Entities controlled by key management personnel |      | 140                                | 113                                |
|   |      | 140                                | 227                                |

The receivables from related parties arise mainly from the sales transactions and are due under normal business terms. The receivables are unsecured and bear no interest.

The payables to related parties arise mainly from the purchase transactions and are due under normal business terms. The payables are unsecured and bear no interest.

#### *iv) Loans to related parties*

|   | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|---|------------------------------------|------------------------------------|
| Entities controlled by key management personnel | 2                                  | —                                  |
|   | 2                                  | —                                  |

In the year ended 31 March 2010 the Entities controlled by key management personnel are various companies controlled by Mr G Smith and executive directors of the Group during the period.

The loans to related parties were unsecured, non-interest bearing and have no fixed terms of repayment.

## Company balance sheet

as at 31 March 2010

|  | Note | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|--|------|------------------------------------|------------------------------------|
| <b>Fixed assets</b>                            |      |                                    |                                    |
| Tangible assets                                | 4    | 5                                  | 10                                 |
| Investments                                    | 5    | 2,237                              | 2,205                              |
|  |      | <b>2,242</b>                       | 2,215                              |
| <b>Current assets</b>                          |      |                                    |                                    |
| Debtors  | 6    | 6,421                              | 6,654                              |
| Cash at bank and in hand                       |      | 22                                 | 832                                |
|  |      | <b>6,443</b>                       | 7,486                              |
| Creditors: amounts falling due within one year | 7    | (242)                              | (799)                              |
| Net current assets                             |      | <b>6,201</b>                       | 6,687                              |
| Net assets                                     |      | <b>8,443</b>                       | 8,902                              |
| <b>Capital and reserves</b>                    |      |                                    |                                    |
| Called up share capital                        | 8    | 1,092                              | 1,091                              |
| Share premium                                  | 9    | 2,603                              | 2,603                              |
| Other reserves                                 | 9    | 3                                  | 70                                 |
| Profit and loss account                        | 9    | 4,745                              | 5,138                              |
| Total shareholders' funds                      | 10   | <b>8,443</b>                       | 8,902                              |

The Company has taken an exemption under FRS 1, 'Cash Flow Statements' from publishing a cash flow statement.

The Company has elected to take the exemption under Section 408 of the Companies Act 2006 not to present the parent company profit and loss account.

The loss for the Company for the year was £183,000 (year to 31 March 2009: £5,597,000).

The notes on pages 40 to 45 are an integral part of these financial statements. The financial statements on pages 39 to 45 were approved by the Board of director's on 19 July 2010 and were signed on its behalf by:



**Steve Butler**  
Director

## Notes to the Company financial information

### 1 General information

SDI Group plc ('the Company') was formed as a limited liability company under the name SDI Group Limited on 5 February 2007. It re-registered as a public limited company on 25 June 2007. The Company is a holding company for a group of companies that consult, design, manufacture, and integrate systems to retail, wholesale, fulfilment and e-commerce industries for all aspects of distribution centre materials handling.

The Company is domiciled in the United Kingdom. The address of its registered office is 11 Jarman Way, Royston, Hertfordshire, SG8 5HW, UK.

### 2 Accounting policies

#### a) Basis of preparation

The Company financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom and the Companies Act 2006.

A summary of the more important accounting policies, which have been reviewed by the Board of directors in accordance with Financial Reporting Standards ('FRS') 18 'Accounting policies' and have been applied consistently, is set out below.

#### b) Fixed assets

##### i) Owned assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses (see accounting policy on impairment).

Where parts of an item of fixed assets have different useful lives, they are accounted for as separate items of fixed assets.

##### ii) Depreciation

Depreciation is provided on a straight-line basis 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, fittings, tools and equipment – three years

The residual value, if not insignificant, and the useful economic life of the assets are reassessed annually.

#### c) Investments

Investments are stated at cost less any amount provided for to reflect a permanent diminution in value.

#### d) Impairment

The need for any fixed asset impairment write down is assessed by comparison of the carrying value of the asset against the higher of realisable value and value in use.

#### e) Taxation

Provision is made for deferred tax liabilities and assets, using full provision accounting, otherwise known as the incremental liability method, when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future in accordance with FRS 19. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### f) Share-based payment

The fair value of employee share plans is calculated using a Black-Scholes model. In accordance with FRS 20 'Share-based payment' the resulting cost is charged to the income statement over the vesting periods of the plans. The value of the charge is adjusted to reflect the expected and actual levels of options vesting.

#### g) Foreign currency translation

Assets and liabilities are translated into Sterling at the rate of exchange ruling at the balance sheet date. Foreign currency trading transactions are translated at the rate ruling at the time of the transaction. All foreign currency exchange differences are dealt with in the profit and loss account for the period, except where financing of a foreign subsidiary through long-term loans and deferred trading balances is intended to be as permanent as equity. Such loans and intercompany balances are treated as part of the net assets of the business; any differences arising are dealt with as adjustments to reserves.

## Notes to the Company financial information

### 2 Accounting policies *continued*

#### *h) Financial instruments*

The Company does not have any financial instruments other than debtors, creditors and cash. Due to the short term nature of these balances, the Company considers the fair value of these items equal to the carrying value.

#### *i) Operating leases*

Rental payments under operating leases are charged to the income statement on a straight-line basis. Benefits received as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

#### *j) Related party transactions*

The Company has taken advantage of the exemption available to parent companies under FRS 8 'Related Party Disclosures', whereby transactions between Group entities that have been eliminated on consolidation are not required to be disclosed.

### 3 Staff numbers and costs

The average number of persons employed by the Company (including executive directors) during the year was as follows:

|                | Year ended<br>31 March<br>2010<br>Number | Sixteen month<br>period ended<br>31 March<br>2009<br>Number |
|----------------|--|---|
| Administration | 5  | 5   |

The aggregate payroll costs of these persons were as follows:

|                              | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|------------------------------|---|--|
| Wages and salaries           | 516                                     | 704  |
| Social security costs        | 59                                      | 86   |
| Employee share option charge | (67)                                    | 42   |
|                              | 508                                     | 832  |

For directors' emoluments see note 7 to the consolidated financial statements.

## Notes to the Company financial information

### 4 Tangible fixed assets

|                             | Fixtures,<br>fittings,<br>tools and<br>equipment<br>£'000 |
|-----------------------------|---|
| <b>Cost</b>                 |   |
| At 31 March 2009            | 22  |
| Additions                   | 3   |
| <b>At 31 March 2010</b>     | <b>25</b>   |
| <b>Depreciation</b>         |   |
| At 31 March 2009            | 12  |
| Depreciation for the period | 8   |
| <b>At 31 March 2010</b>     | <b>20</b>   |
| <b>Net book value</b>       |   |
| At 31 March 2009            | 10  |
| <b>At 31 March 2010</b>     | <b>5</b>  |

### 5 Fixed asset investments

|   | £'000        |
|---|--------------|
| Cost and net book value at 31 March 2009        | 2,205        |
| Additions                                       | 32           |
| <b>Cost and net book value at 31 March 2010</b> | <b>2,237</b> |

|                      | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|----------------------|------------------------------------|------------------------------------|
| Unlisted investments | <b>2,237</b>                       | 2,205                              |

The addition in the year relates to additional costs of setting up SDI Group Germany GmbH.

## Notes to the Company financial information

The above investments are as follows:

| Name   | Country of incorporation | Interest held by Company % | Interest held within the Group % |
|--|--------------------------|----------------------------|----------------------------------|
| SDI Group UK Limited                           | United Kingdom           | 100                        | 100                              |
| SDI Industries France S.A.S.                   | France                   | 100                        | 100                              |
| SDI Group France S.A.S.(Dormant)               | France                   | 100                        | 100                              |
| SDI Industries Italy srl. (Dormant)            | Italy                    | 100                        | 100                              |
| SDI Group Italia srl.                          | Italy                    | 100                        | 100                              |
| MSM-Automations GmbH & Co KG                   | Germany                  | 33                         | 100                              |
| SDIGreenstone Iberia S.L.                      | Spain                    | 0                          | 100                              |
| SDI Group Holland BV (formerly SDI Promech BV) | The Netherlands          | 0                          | 100                              |
| SDI Group Germany GmbH                         | Germany                  | 100                        | 100                              |
| EOC Consulting Limited                         | United Kingdom           | 50                         | 50                               |
| MSM Verwaltungs GmbH                           | Germany                  | 0                          | 100                              |
| SDI Group India Limited (Dormant)              | United Kingdom           | 100                        | 100                              |
| Warehouse Control Solutions Ltd                | United Kingdom           | 0                          | 100                              |
| SDI Group UK Support Limited                   | United Kingdom           | 100                        | 100                              |
| PEP Fordertechnik GmbH                         | Germany                  | 0                          | 100                              |
| SDI Group Austria GmbH                         | Austria                  | 0                          | 100                              |

### 6 Debtors

| Note                                | As at 31 March 2010<br>£'000 | As at 31 March 2009<br>£'000 |
|-------------------------------------|------------------------------|------------------------------|
| Other debtors                       | 6                            | 147                          |
| Amounts due from Group undertakings | 6,391                        | 6,468                        |
| Prepayments                         | 24                           | 39                           |
|                                     | <b>6,421</b>                 | <b>6,654</b>                 |

Amounts due from Group undertakings are unsecured, non-interest bearing and have no fixed terms of repayment.

## Notes to the Company financial information

### 7 Creditors: amounts falling due within one year

|                                   | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|-----------------------------------|------------------------------------|------------------------------------|
| Trade creditors                   | 55                                 | 145                                |
| Other Creditors                   | 4                                  | —                                  |
| Amounts due to Group undertakings | —                                  | —                                  |
| Social security and other taxes   | 34                                 | 39                                 |
| Accruals                          | 60                                 | 57                                 |
| Deferred purchase consideration   | 89                                 | 558                                |
|                                   | <b>242</b>                         | <b>799</b>                         |

### 8 Share Capital

|                            | Number of<br>ordinary<br>shares<br>'000s | Ordinary<br>shares<br>£'000 |
|----------------------------|--|-----------------------------|
| At 31 March 2009           | 109,073                                  | 1,091                       |
| Allotted during the period | 200                                      | 1                           |
| <b>At 31 March 2010</b>    | <b>109,273</b>                           | <b>1,092</b>                |

The total authorised number of ordinary shares is 200 million shares.

Details of share-based payments schemes operated by the Company are included in note 22 to the consolidated financial statements.

### 9 Reserves

|                               | Share<br>premium<br>£'000 | Share<br>options<br>£'000 | Profit and<br>loss account<br>£'000 | Total<br>£'000 |
|-------------------------------|---------------------------|---------------------------|-------------------------------------|----------------|
| At 31 March 2009              | 2,603                     | 70                        | 5,138                               | 7,811          |
| Loss for the financial period | —                         | —                         | (183)                               | (183)          |
| Currency exchange differences | —                         | —                         | (210)                               | (210)          |
| Employee share option charge  | —                         | (67)                      | —                                   | (67)           |
| <b>At 31 March 2010</b>       | <b>2,603</b>              | <b>3</b>                  | <b>4,745</b>                        | <b>7,351</b>   |

## Notes to the Company financial information

### 10 Reconciliation of movement in shareholders' funds

|                                    | Year ended<br>31 March<br>2010<br>£'000 | Sixteen month<br>period ended<br>31 March<br>2009<br>£'000 |
|------------------------------------|---|--|
| Profit for the financial period    | (183)                                   | 5,597  |
| Currency exchange differences      | (210)                                   |  |
| Dividends paid                     | —                                       | (982)  |
| Issue of new shares                | 1                                       | 30   |
| Issue costs on share placing       | —                                       | (5)  |
| Employee share option charge       | (67)                                    | 42   |
| Opening shareholders' funds        | 8,902                                   | 4,220  |
| <b>Closing shareholders' funds</b> | <b>8,443</b>                            | <b>8,902</b>   |

### 11 Operating lease commitments

The future minimum lease payments in respect of non-cancellable leases for land and buildings are as follows:

|                         | As at<br>31 March<br>2010<br>£'000 | As at<br>31 March<br>2009<br>£'000 |
|-------------------------|------------------------------------|------------------------------------|
| <b>Expiring within:</b> |                                    |                                    |
| Two to five years       | 110                                | 44                                 |
|                         | <b>110</b>                         | <b>44</b>                          |

## Independent auditors' report

to the members of SDI Group plc

We have audited the parent company financial statements of SDI Group Plc for the year ended 31 March 2010 which comprise the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

### Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2010
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the parent company financial statements are prepared is consistent with the parent company financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Other matter

We have reported separately on the group financial statements of SDI Group Plc for the year ended 31 March 2010.

Paul Norbury (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Cambridge  
22 July 2010

**SDI Group plc**

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