



Feedback plc

Annual Report and
Accounts 2007

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Feedback plc is the holding company for a group of high-technology companies which are widely regarded as leaders in their market sectors. Serving education and industry, the Group addresses international markets through the design, manufacture and marketing of electronic, electrical and computer-based equipment.

The Group is committed to the application of current and innovative technologies to provide a range of products and services to meet market requirements and customer needs.

Company Information

Company Information

Secretary

G. B. M. Bushell

Registered Office

Park Road, Crowborough,
East Sussex,
TN6 2QR, England.

Registered Number

598696

Auditor

Baker Tilly UK Audit LLP,
Chartered Accountants
Hanover House,
18 Mount Ephraim Road,
Tunbridge Wells,
Kent, TN1 1ED.

Solicitors

Cripps Harries Hall LLP,
Windsor House,
6-10 Mount Ephraim Road,
Tunbridge Wells,
Kent, TN1 2UP.

Bankers

Barclays Bank PLC,
73 Calverley Road,
Tunbridge Wells,
Kent, TN1 2UZ.

Registrars

Capita Registrars,
The Registry,
34 Beckenham Road,
Beckenham,
Kent, BR3 4TU.

Directors

David Henry Harding, F.C.A.

Chairman, Non-Executive Director

Appointed a Director in May 1993 and Chairman in August 1998, but has held shares non-beneficially as a trustee for a number of years. A Chartered Accountant, now retired from audit practice, he has a wide experience of listed companies. He is Chairman of the Group's Remuneration and Audit Committees. Aged 76.

David John Sawyer, B.Sc.

Chief Executive

David Sawyer was appointed Group Managing Director on January 1 2003. He has been President of Feedback Incorporated since 1998 and joined the Feedback plc Board in September 2001.

He has over twenty years experience in international sales and the marketing of educational products and systems. Originally trained as a teacher, he has held a number of commercial and general management positions. Aged 55.

Gerard Bernard Michael Bushell

Executive Director

Trained as an accountant, he gained experience in a variety of financial roles in both industrial and service oriented companies prior to joining Feedback Data Limited in 1992. Appointed a Director of that Company in 1994, and has been Company Secretary of Feedback plc since 2001. Appointed to the Board of Feedback plc in August 2004. Aged 51.

David Barton, F.C.A.

Non-executive Director

Having qualified as a Chartered Accountant with Coopers & Lybrand in 1969, he decided to leave the profession to pursue a commercial career. He has been actively engaged in numerous business sectors, which have included banking, property, media and manufacturing. He was appointed to the Board of Feedback plc in July 2007. Aged 62.

John Hugh Westcott, D.Sc., F.R.Eng., F.R.S.

Non-Executive Director

A founder Director of the Company and Emeritus Professor of Control Systems and a Senior Research Fellow at Imperial College. He has guided the Company on specification and design of equipment. He is a Member of the Group's Remuneration and Audit Committees. Aged 86.

Chairman's & Chief Executive's Statement

The past few years have been very challenging for the Group. We have had to adapt to changing market conditions in all the subsidiary businesses whilst addressing legacy issues such as the pension deficit and operating in unsuitable buildings in Crowborough. We are well advanced in finding permanent solutions to all these difficulties and, although most of the considerable associated costs have been borne during the period ending 31 May 2007, the benefits will become apparent over the coming years. As part of the restructuring process the financial year end was extended from 31 March to 31 May.

The attached accounts for the 14 month period to 31 May 2007 show an operating profit of £325,600 on a turnover of £9,639,400 compared to £159,500 and £7,638,600 respectively for the 12 months to 31 March 2006. This continues the trend of improving profits at a trading level in recent years.

Exceptional costs associated with the solution to the pension situation, which occurred after the end of this financial period, dilapidations on leased buildings which had been vacated and restructuring amounted to £763,900 (2006 – £nil) and costs associated with the pension fund, which was ongoing during the period, interest and accrued dividends on the now fully converted Preference Shares totalled £391,200 (2006 – £454,800). The loss before tax was £521,900 (2006 – £295,300).

As previously reported the main freehold premises in Park Road, Crowborough had been sold subject to residential planning permission being granted for the site. Three applications were rejected by the local authorities but, after going to appeal, permission was granted for the development of the site in early February 2007. Alternative premises are being investigated with a view to relocating the whole UK company.

All the fundamental difficulties the Group has experienced have been, or are being addressed. This together with the improving trading performance and reduced costs across the Group allow us to be more confident about the future than we have been for some time.

Feedback Instruments Limited

There was another strong performance during the year from the largest of the subsidiary companies. The strategic initiatives that have been referred to in previous Statements; the introduction of new products, improved communications with agents and reductions in costs are continuing to deliver results and helped to increase turnover.

The overall export performance was significantly ahead of the previous year. In particular there were continued strong sales in the Middle East and Far East and a number of our international agents showed an improved commitment and produced strong growth. Some agency arrangements were changed in territories where it was felt performance should improve.

Funding within the Higher Education sector in the UK has been weak for a number of years but the UK sales team, under their new manager, is producing very encouraging results in this challenging market. Of particular note is the success being achieved with the distributed line of science apparatus for schools which is showing significant growth reflecting both the effort being made and the relatively strong funding in this market sector.

In anticipation of the move to new premises two of the leased sites in Crowborough were vacated and all personnel were relocated to Park Road. The temporary loss of some of our metalworking capability, together with the improved level of orders, necessitated the use of more subcontracting. Output has been therefore somewhat restricted for a time.

In recent years the company has suffered from a lack of new products but a number of items of equipment have been introduced recently as part of the ongoing development strategy. Of particular note is a new range of Control teaching systems which addresses the market sector in which Feedback started and in which it established its reputation for quality and reliability. These new products have been well received and will help the company restore its dominant position in this market.

Feedback Data Limited

Feedback Data produces terminals for collecting data to improve efficiency and security in the workplace. Although it operates in a very competitive market turnover was up on the previous year. It was also encouraging to monitor the improving sales of some of the newer products which had taken longer to gain market acceptance than had been anticipated.

Strategic partnerships with new and established Value Added Resellers were renegotiated which has resulted in stronger sales and less dependence on too few channels to market. More emphasis has been put on obtaining end-user sales and a number of niche markets were identified which are being investigated and are already producing results.

A significant proportion of the company's revenue is derived from field support of installed products. Turnover in this area has been maintained over recent years and ways to increase efficiency and service are being considered.

A new data terminal, the TR1000 was developed to address the mid-range market and to eventually replace the Kestrel and the new platform for the access control market, Evolution, continues to be expanded.

Feedback Incorporated

After the disappointing performance in the preceding year the company returned to profitability. The continuing weakness of the Dollar is however putting pressure on margins and funding in the educational sector in the USA can be uncertain.

The extra field sales personnel have started to contribute and the new products, introduced over the previous 12 months, have been well received by the market. To maintain this momentum a new marketing campaign has been initiated to complement the direct sales effort.

The recent launch of the new range of Control experiments at the American Control Conference in New York went very well. This is a market segment that Feedback had dominated in North America and it is hoped that, with the introduction of these new products, this position can be re-established.

Post Balance Sheet Events

Of most significance is the solution to the deficit in the defined benefit Feedback Pension Scheme. This scheme was closed during 2004 but due the size of the deficit, relative to Group turnover and profitability, the future viability of the Group was seriously compromised. At the same time as the scheme was closed an agreement was reached with Opra (Occupational Pensions Regulatory Authority) to address the deficit over 15 years.

With the change in funding requirements brought in by The Pensions Regulator, which succeeded Opra, and the adoption of FRS17 a different, permanent solution was required.

After lengthy and complex negotiations with the Trustees of the scheme, The Pensions Regulator and the Pension Protection Fund (PPF) an agreement was reached whereby responsibility for the deficit was assumed by the PPF in return for certain conditions being met. A formal Company Voluntary Arrangement (CVA) was announced under which all creditors other than the PPF were to be paid in full. The Group would pay the PPF £1,200,000 (£700,000 from the proceeds of a £1,400,000 placing and £500,000 after vacation of the Park Road premises) plus provide shares totalling 18% of the enlarged share capital after restructuring. The CVA and restructuring was agreed at meetings of shareholders and creditors held on 2 July 2007. The company will be formally released from the CVA once the final £500,000 is paid to the Trustees.

The following proforma Balance Sheet is for illustrative purposes only. If the changes to the pension scheme and the completion of the sale of the Park Road premises had taken place on 31 May 2007 the table shows how the Balance Sheet would have changed (the proforma Balance Sheet is unaudited and is not a statutory Balance Sheet under S.240 of the Companies Act).

| | Actual 31 May 2007 £000 (audited) | Proforma 31 May 2007 £000 (unaudited) |
|---|--|--|
| Fixed assets | | |
| Tangible assets | 59.9 | 59.9 |
| Current assets | | |
| Stocks | 1,179.5 | 1,179.5 |
| Debtors | 2,630.9 | 1,725.9 |
| Cash at bank and in hand | 486.4 | 1,387.9 |
| | <u>4,296.8</u> | <u>4,293.3</u> |
| Creditors: amounts falling due within 1 year | | |
| Borrowings | (414.8) | (414.8) |
| Other creditors | (2,117.8) | (2,067.7) |
| | <u>(2,532.6)</u> | <u>(2,482.5)</u> |
| Net current assets | 1,764.2 | 1,810.8 |
| Total assets less current liabilities | 1,824.1 | 1,870.7 |
| Creditors: amounts falling due after 1 year | | |
| Borrowings | (505.5) | — |
| Net assets excluding pension liability | 1,318.6 | 1,870.7 |
| Pension liability | (7,974.4) | — |
| Net (liabilities)/assets including pension liability | <u>(6,655.8)</u> | <u>1,870.7</u> |

Finding the solution to this problem has been extremely time consuming and has caused a significant diversion of management attention. We would like to thank all the advisors who have worked tirelessly on our behalf. For further information please see Note 27 to the accounts.

Current Trading & Future Prospects

The inflow of orders is satisfactory and the Order Book is healthy. However, production bottlenecks, arising from the consolidation of all the UK companies' operations onto one site at Park Road, ahead of moving to new premises, have resulted in some delays in the dispatch of sales. These problems are being actively addressed. This has been a year of tremendous achievement and the Board looks forward to the future with renewed confidence.

David Harding
Chairman

David Sawyer
Chief Executive

26 September 2007

Report of the Directors

Principal Activities of the Group

The Group is widely accepted as a leader in international markets in its design, manufacture and marketing of electronic, electrical and computer based equipment for education and industry.

There has been no change in these activities during the year.

Review of the Business

The Chairman's and Chief Executive's Statement on pages 2 and 3 includes a general review of the Group's business by subsidiary.

The directors have a number of financial and non financial indicators in place by which the operation of the Group is monitored. These Key Performance Indicators include gross margin percentage (2007 – 48.1%; 2006 – 57.4%), outstanding order book (2007 – £2,355,300; 2006 – £1,094,300) and a number of production related measures such as First Time Pass Rate (62%) and productivity (89%) which has been introduced this year. The directors use these KPIs as guides to monitor critical factors in the Group's activities.

Future Developments in the Business

The Group will continue to look for opportunities to strengthen and protect its market position and product portfolios. Focus will continue on market led development and acquisition of new and improved products, and software combined with improvements in working practices, leading to better customer service and profit. The Group aims to broaden its product base and continues to explore and develop joint ventures with suitable partners in related business areas.

Group Results and Dividends

The Group loss for the period after taxation amounted to £521,900 (2006 – £295,300). However the Group made an operating profit before reorganisation costs and pension adjustments of £325,600 (2006 – £159,500).

There were no Convertible Redeemable Cumulative Preference Shares remaining in issue at the Balance Sheet Date, these having all been converted by 30 March 2007.

Due to the lack of distributable reserves, no dividends are payable.

Principal Risks and Uncertainties

The Group's activities expose it to a variety of financial risks (including currency risk, interest risk and price risk), credit risk, liquidity risk and cash flow risk. The Group's overall risk management focuses on the unpredictability of the markets in which it operates and seeks to minimise adverse effects on the Group's financial performance.

a) Foreign exchange risk

Since it operates internationally, the Group is exposed to foreign exchange risk arising from currency exposures, principally with respect to the US Dollar and the Euro. Foreign exchange risks arise from future commercial transactions and net investments in overseas subsidiaries.

b) Credit risk

The Group has no significant credit risks. It has policies in place to ensure that sales of products and services are supported either by means of irrevocable letters of credit or are to customers with appropriate creditworthiness.

c) Liquidity risk

Management of liquidity risk concentrates on the maintenance of appropriate credit lines and funding sources to ensure adequate cash resources for the Group's operations.

d) Interest rate risk

Interest rate risk is the exposure of the Group's net income to changes in market interest rates. The Group's interest-bearing assets are cash, and the directors do not expect the market interest rate on those assets to decrease to a significant extent. The Group's longer-term borrowings are predominantly fixed rate, the details of which are disclosed in note 19. The directors do not anticipate that increases in the market interest rate applicable to its short-term borrowings will significantly increase its cash outflows.

Feedback Instruments Limited

Feedback Instruments designs, manufactures and markets equipment and software for engineering and technology training in electrical and electronic systems, together with test instruments and complementary educational products. The company's markets are world-wide, selling to universities, colleges, service training establishments and industrial and commercial customers.

The company also produces equipment on a sub-contract basis for Feedback Data.

Feedback Data Limited

Feedback Data's main market is in data collection and time and attendance terminals, together with software for use with these terminals. The company also supplies access control equipment and software enabling central monitoring of fully integrated access, fire and security systems in larger organisations. The customers for data collection equipment are predominantly value added resellers, rather than end users, and the company concentrates on supplying units for incorporation in their systems. Products are often designed in co-operation with the customers who are mainly based in the UK and Continental Europe. The Continental European market is serviced by Feedback Data GmbH, a wholly owned subsidiary of Feedback Data Limited.

Feedback Incorporated

Feedback Incorporated, based in North Carolina, markets products and systems to educational and industrial training organisations throughout the USA and Canada. It also offers both application and technical support for these products and provides curriculum development.

Primarily it distributes products manufactured within the Feedback group and complements these with compatible offerings from other companies both from the UK and elsewhere.

It has a direct sales force and uses a representative network strategically located throughout N. America.

Research and Development

The Group will continue its policy of investing in the development and marketing of improved, innovative, educational, data capture and access control products, all with an increasing software content.

Directors

The Directors at the date of this report are listed on page 1.

Mr. G. B. M. Bushell retires by rotation at the Annual General Meeting, in accordance with the Articles of Association. Mr. Bushell, being eligible, will offer himself for re-election at the Annual General Meeting.

Mr. Bushell has a rolling service agreement with Feedback plc, which is subject to six months notice.

Mr. D. Barton was appointed a Director on 24 July 2007. Under the Articles of Association he will offer himself for election at the Annual General Meeting. Mr Barton has a letter of appointment with Feedback plc until 31 December 2007.

With the exception of service agreements and letters of appointment none of the Directors had any beneficial interest in any contract entered into by a Group Company which was of significance in relation to the Company's business.

Directors' Interests

The Directors who served during the period and the interests at 31 May 2007 are shown below.

Their interests at 1 April 2006 or the date of appointment if later, are shown in brackets where different:

| | Ordinary Shares Issued | | | |
|--------------------------|------------------------|---------|----------------|-------------|
| | Beneficial | | Non-Beneficial | |
| D. H. Harding | – | | 4,067,461 | (4,682,405) |
| Professor J. H. Westcott | 126,088 | (1,263) | 4,067,461 | (2,490,136) |
| D. J. Sawyer | 10,000 | | – | |
| G. B. M. Bushell | – | | – | |

The 4,067,461 Ordinary Shares held by Mr Harding on a non-beneficial basis are duplicated in the non-beneficial holding of Professor Westcott.

Since 31 May 2007, there have been a number of changes in Directors' interests, as a result of matters described in Note 27 - "Post Balance Sheet Events". At the date of this report the interests of the Directors were:

| | Ordinary Shares Issued | | | |
|--------------------------|------------------------|----------|----------------|-------------|
| | Beneficial | | Non-Beneficial | |
| D. H. Harding | – | | 4,067,461 | (4,682,405) |
| Professor J. H. Westcott | 3,674,836 | (1,263) | 4,067,461 | (2,490,136) |
| D. Barton | 4,166,667 | – | | |
| D. J. Sawyer | 510,000 | (10,000) | | |
| G. B. M. Bushell | 250,000 | – | | |

Report of the Directors

continued

Directors' Interests - continued

On 20 July 2007, D. J. Sawyer and G. B. M. Bushell were awarded share options under an Enterprise Management Share Incentive Scheme, as follows:

| | Number of Shares | Price per Share |
|------------------|------------------|-----------------|
| D. J. Sawyer | 2,666,666 | 3.75p |
| G. B. M. Bushell | 1,374,666 | 3.75p |

Under the EMI Scheme, the holders may:

- a) exercise 50% of the shares under option after a period of three years from the date of the grant;
- b) exercise 50% of the shares under option after three years from the grant of the option subject to the Ordinary Share price on the Alternative Investment Market achieving a mid-market price of 10 pence or more for a minimum of 90 days.

Employment Policies

The Group is committed to employee involvement in the business and there are consultative procedures available for management and other employees to discuss matters of mutual interest.

The Group has a policy of non-discrimination in respect of sex, colour, religion, race, nationality or ethnic origin and the recruitment of disabled persons is only subject to any overriding considerations of access and safety.

Creditor Payment Policy and Practice

The Company's policy for all suppliers is to fix terms of payment when agreeing the terms of each business transaction, to ensure the supplier is aware of those terms and to abide by the agreed terms of payment. Payment terms for the period ended 31 May 2007 averaged 50 days (2006 – 98 days).

Treasury Policy

The Group has adopted formal treasury policies to control its financial instruments. It is a Group Treasury policy not to undertake transactions of a speculative nature. The Group utilises a mix of short-term group overdraft facilities matched with longer term floating rate borrowing to enable it to manage its liquidity risk. Group cash flows are therefore managed centrally and surplus cash is invested in short-term financial instruments. Export business is, wherever possible, carried out in sterling.

The Group manages its interest rate risk by retaining a regularly monitored mix of floating rate and fixed rate borrowings, with fixed rate borrowings generally retaining a longer term maturity date to enable the Group to make more long-term plans for utilisation of its liquid resources.

When orders are received in foreign currency, the Group enters into forward buying contracts to cover currency exposure. There were no forward currency contracts outstanding at the year end.

Compliance with these policies is monitored by the Board. Other than for currency disclosures, the Group has taken advantage of the exemption permitting it not to treat short term debtors and creditors as financial instruments.

Charitable Donations and Political Contributions

Group companies made no charitable donations during the year (2006 – nil).

No political contributions were made.

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- a) select suitable accounting policies and then apply them consistently;
- b) make judgements and estimates that are reasonable and prudent;
- c) state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985. They are also responsible for safeguarding the assets of 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 corporate and financial information included on the company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement as to Disclosure of Information to Auditors

The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditors are unaware. Each of the directors have confirmed that they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that it has been communicated to the auditors.

Auditors

The directors, having been notified of the cessation of the partnership known as Baker Tilly resolved that Baker Tilly UK Audit LLP be appointed as successor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, S26 (S). Baker Tilly UK Audit LLP has indicated its willingness to continue in office and a Resolution to that effect will be proposed at the Company's Annual General Meeting.

By Order of the Board
G. B. M. Bushell
Secretary

26 September 2007

Report of the Independent Auditor

We have audited the financial statements on pages 10 to 32.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 31 May 2007 and of the group's loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

Emphasis of matter - going concern and post balance sheet company voluntary arrangement

In forming our opinion, which is not qualified, we have considered the adequacy of the disclosures made in notes 1 and 27 to the financial statements concerning the ability of the company to continue as a going concern and the impact of the post balance sheet company voluntary arrangement and restructuring. The Group's liabilities (including the pension liability of £7,974,400) exceeded its assets at 31 March 2007 by £6,655,800 and at the date of approving these financial statements the post balance sheet company voluntary arrangement and restructuring had not been completed. This situation, as further explained in the notes referred to above, indicates the existence of a material uncertainty which may cast significant doubt about the ability of the company to continue as a going concern. The financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern.

Baker Tilly UK Audit LLP

Registered Auditor
Chartered Accountants
Tunbridge Wells

26 September 2007

Consolidated Profit and Loss Account

14 months ended 31 May 2007

| | Note | 2007 £000 14 months | 2006 £000 |
|------------------------------------|------|---------------------------|--------------------|
| TURNOVER | 2 | 9,639.4 | 7,638.6 |
| Cost of Sales | | <u>(5,534.8)</u> | <u>(4,255.9)</u> |
| Gross profit | | 4,104.6 | 3,382.7 |
| Other Operating Expenses | 3 | <u>(3,779.0)</u> | <u>(3,223.2)</u> |
| Operating profit | 4 | 325.6 | 159.5 |
| Profit on sale of fixed asset | 7 | 307.6 | |
| Exceptional reorganisation cost | 7 | <u>(763.9)</u> | |
| | | (456.3) | – |
| Net interest | 5 | (143.2) | (148.8) |
| Other finance costs | | <u>(248.0)</u> | <u>(306.0)</u> |
| | | (521.9) | (295.3) |
| Tax on loss on ordinary activities | 8 | <u>–</u> | <u>–</u> |
| | | (521.9) | (295.3) |
| Loss per share (pence) | 11 | | |
| Basic | | (3.34) | (2.40) |
| Diluted | | (3.34) | (2.40) |

*The notes on pages 16 to 32 form part of these financial statements
All activities are classed as continuing*

Consolidated Statement of Total Recognised Gains and Losses

14 months ended 31 May 2007

Total recognised gains and losses for the period

| | Group | |
|---|------------------|------------------|
| | 2007 £000 | 2006 £000 |
| | 14 months | |
| Loss for the financial period | (521.9) | (295.3) |
| Unrealised surplus on revaluation of land and buildings | – | 223.2 |
| Transfer of Revaluation Reserve upon the sale of asset | 595.6 | – |
| Currency translation differences on foreign currency net investments | 22.9 | 86.5 |
| Actual return less expected return on pension scheme assets | (265.0) | 1,315.0 |
| Experience gains and losses arising on liabilities | – | 596.0 |
| Changes in the assumptions underlying the present value of the scheme liabilities | 285.0 | (2,068.0) |
| | <hr/> | <hr/> |
| Total gain/(losses) relating to the period | 116.6 | (142.6) |

Note of Consolidated Historical Cost Profits and Losses

| | Group | |
|--|------------------|--------------|
| | 2007 £000 | 2006 £000 |
| | 14 months | |
| Reported loss on ordinary activities before taxation | (521.9) | (295.3) |
| Difference between actual and historical cost depreciation | – | 7.3 |
| Realisation of property revaluation gains | 595.6 | – |
| | <hr/> | <hr/> |
| Historical cost loss on ordinary activities before taxation | 73.7 | (288.0) |
| | <hr/> | <hr/> |
| Retained historical loss on ordinary activities after taxation | 73.7 | (288.0) |

The notes on pages 16 to 32 form part of these financial statements

Consolidated Balance Sheet

at 31 May 2007

| | Note | 2007 | | 2006 | |
|--|------|------------------|------------------|------------------|------------------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Tangible assets | 13 | | 59.9 | | 714.9 |
| Current assets | | | | | |
| Stocks | 15 | 1,179.5 | | 1,000.3 | |
| Debtors | 16 | 2,630.9 | | 1,616.3 | |
| Cash at bank and in hand | | 486.4 | | 805.7 | |
| | | <u>4,296.8</u> | | <u>3,422.3</u> | |
| Creditors: amounts falling due within one year | | | | | |
| Borrowings | 19 | (414.8) | | (1,132.1) | |
| Other creditors | 18 | (2,117.8) | | (1,447.4) | |
| | | <u>(2,532.6)</u> | | <u>(2,579.5)</u> | |
| Net current assets | | | <u>1,764.2</u> | | <u>842.8</u> |
| Total assets less current liabilities | | | <u>1,824.1</u> | | <u>1,557.7</u> |
| Creditors: amounts falling due after more than one year | | | | | |
| Borrowings | 19 | | (505.5) | | (579.0) |
| Net assets excluding pension liability | | | <u>1,318.6</u> | | <u>978.7</u> |
| Pension liability | 26 | | (7,974.4) | | (8,233.0) |
| Net liabilities including pension liability | | | <u>(6,655.8)</u> | | <u>(7,254.3)</u> |
| Capital and Reserves | | | | | |
| Called up share capital | 21 | | 1,761.2 | | 1,234.5 |
| Share premium account | | 936.6 | | 409.9 | |
| Revaluation reserve | | – | | 595.6 | |
| Capital reserve | | 299.9 | | 299.9 | |
| Profit and loss account | | (9,653.5) | | (9,794.2) | |
| Total reserves | 23 | | <u>(8,417.0)</u> | | <u>(8,488.8)</u> |
| Deficiency of Shareholders' funds – equity interest | | | <u>(6,655.8)</u> | | <u>(7,254.3)</u> |

The financial statements on pages 10 to 32 were approved by the Board of Directors on 26 September 2007 and authorised for issue and signed on its behalf by D. J. Sawyer, Director.

The notes on pages 16 to 32 form part of these financial statements

Company Balance Sheet

at 31 May 2007

| | Note | 2007 | | 2006 | |
|--|------|------------------|--------------------|--------------------|--------------------|
| | | £000 | £000 | £000 | £000 |
| Fixed assets | | | | | |
| Tangible assets | 13 | | 24.8 | | 665.3 |
| Investments | 12 | | 393.9 | | 393.9 |
| | | | <u>418.7</u> | | <u>1,059.2</u> |
| Current assets | | | | | |
| Debtors | 16 | 2,091.8 | | 1,137.0 | |
| Cash at bank and in hand | | – | | 71.6 | |
| | | <u>2,091.8</u> | | <u>1,208.6</u> | |
| Creditors: amounts falling due within one year | | | | | |
| Borrowings | 19 | (366.1) | | (1,132.1) | |
| Other creditors | 18 | (483.0) | | (117.8) | |
| | | <u>(849.1)</u> | | <u>(1,249.9)</u> | |
| Net current assets/(liabilities) | | | <u>1,242.7</u> | | <u>(41.3)</u> |
| Total assets less current liabilities | | | <u>1,661.4</u> | | <u>1,017.9</u> |
| Creditors: amounts falling due after more than one year | | | | | |
| Borrowings | 19 | | (505.5) | | (579.0) |
| Net assets excluding pension liability | | | <u>1,155.9</u> | | <u>438.9</u> |
| Pension liability | 26 | | (493.6) | | (544.0) |
| Net assets/(liabilities) after pension liability | | | <u>662.3</u> | | <u>(105.1)</u> |
| Capital and Reserves | | | | | |
| Called up share capital | 21 | | 1,761.2 | | 1,234.5 |
| Share premium account | | 936.6 | | 409.9 | |
| Revaluation reserve | | – | | 595.6 | |
| Profit and loss account | | (2,035.5) | | (2,345.1) | |
| Total reserves | 23 | | <u>(1,098.9)</u> | | <u>(1,339.6)</u> |
| Shareholders' funds/(deficiency) – equity interest | | | <u>662.3</u> | | <u>(105.1)</u> |

The financial statements on pages 10 to 32 were approved by the Board of Directors on 26 September 2007 and authorised for issue and signed on its behalf by D. J. Sawyer, Director.

The notes on pages 16 to 32 form part of these financial statements

Consolidated Cash Flow Statement

14 months ended 31 May 2007

| | 2007 | | 2006 | |
|---|-----------------|------------------|----------|----------|
| | £000 | £000 | £000 | £000 |
| | 14 months | | | |
| Net cash (outflow)/inflow from operating activities | | (527.2) | | 62.7 |
| Returns on investments and servicing of finance | | | | |
| Finance lease interest paid | (1.0) | | – | |
| Interest paid | (49.9) | | (47.8) | |
| Interest received | 3.7 | | – | |
| | | <hr/> | <hr/> | |
| Net cash outflow from returns on investments and servicing of finance | | (47.2) | | (47.8) |
| Capital expenditure and financial investment | | | | |
| Purchase of tangible fixed assets | (32.2) | | (26.0) | |
| Sale of tangible fixed assets | 50.0 | | – | |
| | | <hr/> | <hr/> | |
| Net cash inflow/(outflow) from capital expenditure and financial investments | | 17.8 | | (26.0) |
| Financing | | | | |
| Repayments of bank and other loans | (32.5) | | (30.0) | |
| Capital element of finance leases and rental payments | (8.1) | | – | |
| | | <hr/> | <hr/> | |
| Net cash outflow from financing | | (40.6) | | (30.0) |
| | | <hr/> | <hr/> | |
| Decrease in cash in the period | | (597.2) | | (41.1) |
| | | <hr/> | <hr/> | |

The notes on pages 16 to 32 form part of these financial statements

Notes to the Consolidated Cash Flow Statement

14 months ended 31 May 2007

| | | | | | |
|---|------------------|-------------|----------------|-------------------|------------------|
| 1. Reconciliation of operating profit to net cash flow from operating activities | | 2007 | 2006 | | |
| | | £000 | £000 | | |
| | 14 months | | | | |
| Operating profit | 325.6 | 159.5 | | | |
| Cash flows in respect of exceptional reorganisation costs | (425.6) | – | | | |
| Depreciation of tangible fixed assets | 63.1 | 60.9 | | | |
| Foreign exchange difference | (46.8) | – | | | |
| (Increase)/decrease in stock | (179.3) | 210.4 | | | |
| (Increase)/decrease in debtors | (110.0) | 137.3 | | | |
| Increase/(Decrease) in creditors | 332.4 | (88.4) | | | |
| Pension contributions paid | (486.6) | (417.0) | | | |
| | (527.2) | 62.7 | | | |
| | | <hr/> | <hr/> | | |
| 2. Reconciliation of net cash flow to movement in net debt | | 2007 | 2006 | | |
| | | £000 | £000 | | |
| | 14 months | | | | |
| Decrease in cash | (597.2) | (41.1) | | | |
| Foreign exchange difference | 71.0 | (47.5) | | | |
| Movement in value of preference shares and related dividends | 981.3 | (25.6) | | | |
| Finance leases entered into | (24.2) | – | | | |
| Finance lease repayments | 8.1 | – | | | |
| Loan repayments | 32.5 | 30.0 | | | |
| | 471.5 | (84.2) | | | |
| Movement in net debt in the period | | <hr/> | <hr/> | | |
| Net debt at 1 April 2006 | (905.4) | (821.2) | | | |
| Net debt at 31 May 2007 | (433.9) | (905.4) | | | |
| | | <hr/> | <hr/> | | |
| 3. Analysis of changes in net debt | | | | | |
| | At 1 April | Cash | Other | Exchange | At 31 May |
| | 2006 | flow | changes | difference | 2007 |
| | £000 | £000 | £000 | £000 | £000 |
| Cash at bank and in hand | 805.7 | (319.3) | – | – | 486.4 |
| Bank overdrafts | (120.8) | (277.9) | – | – | (398.7) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | 684.9 | (597.2) | – | – | 87.7 |
| | | | | | |
| Debt due within one year | (1,011.3) | 30.0 | 981.3 | – | – |
| Debt due after one year | (579.0) | 2.5 | – | 71.0 | (505.5) |
| Finance leases | – | 8.1 | (24.2) | – | (16.1) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | (1,590.3) | 40.6 | 957.1 | 71.0 | (521.6) |
| | | | | | |
| Total | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | (905.4) | (556.6) | 957.1 | 71.0 | (433.9) |

The notes on pages 16 to 32 form part of these financial statements

Notes to the Accounts

1. Accounting Policies

Basis of Accounting

The financial statements are prepared in accordance with the historical cost convention as modified by the revaluation of freehold property (disposed of during the period), and in accordance with applicable accounting standards, except in the case of FRS 17, where the departure from the Standard is explained in Note 25.

At the Extraordinary General Meeting held on 2 July 2007, the proposal for resolving the pension deficit was adopted by the shareholders and consequently the Group entered a Company Voluntary Arrangement (CVA). At the date of approval of the accounts, the CVA has not been completed. The final requirement is to remit to the Pension Protection Fund the amount of £500,000 on vacation of the Park Road site. The Directors are not aware of any matters which are likely to prevent the successful conclusion of the CVA, and therefore have prepared the accounts on a going concern basis.

The Group changed its Accounting Reference date from 31 March to 31 May, with effect from 31 May 2007. Therefore, the accounts presented are for the fourteen month period from 1 April 2006 to 31 May 2007. The comparatives for the previous year are for the twelve month period 1 April 2005 to 31 March 2006.

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. Goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life, which is 20 years. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Goodwill arising on acquisitions made prior to 31 March 1998 was written off immediately to reserves. This has not been reinstated.

The Companies Act 1985 requires goodwill arising on the acquisition of a subsidiary undertaking to be calculated as the difference between the total acquisition cost of the undertaking and the fair value of the group's share of the identifiable assets and liabilities at the date it became a subsidiary undertaking.

FRS 2 requires that, where an investment in a Joint Venture becomes a subsidiary undertaking, in order to show a true and fair view goodwill should be calculated on each purchase as the difference between the cost of that purchase and the fair value at the date of that purchase.

Tangible Fixed Assets

Depreciation on other assets is provided on cost or valuation less estimated residual value in equal annual instalments over the estimated lives of the assets. The rates of depreciation are as follows:

| | |
|---------------------|---------------|
| Buildings | 2 – 10% p.a. |
| Plant and equipment | 10 – 50% p.a. |
| Motor vehicles | 25 – 33% p.a. |

Revaluation of Land and Buildings

FRS 15 requires fixed assets which are carried at revalued amounts to be shown at their current value at the balance sheet date. To achieve this freehold land and buildings are subject to a full valuation every five years, with an interim valuation carried out in the third year of this cycle or more frequently when the directors consider it appropriate.

The profit or loss on disposal of revalued properties is calculated by reference to net book value and any realised revaluation surplus is transferred to the profit and loss account through reserves.

The Company has entered into a contract for the sale of its freehold premises for the sum of £955,000. Although the sale has not yet been completed, the disposal and the gain arising therefrom are included in these accounts.

Valuation of Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Leases

Assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the leases. The amounts by which the lease payments exceed the recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligation. Rental costs under operating leases are charged to the profit and loss account in equal annual amounts over the period of the leases.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost represents materials, direct labour and appropriate production overheads.

Foreign Currency

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates ruling at that date. These translation differences are dealt with in the profit and loss account. Assets and liabilities of the overseas subsidiaries are translated into sterling at the closing rate of exchange and trading results at the average rate of exchange for the period. These translation differences are dealt with as a movement in reserves.

Turnover

Turnover, which is stated net of Value Added Tax, represents the total amount receivable in the ordinary course of business after eliminating intra-group transactions.

Research and Development

Research and development expenditure is expensed to the profit and loss account in the period in which it is incurred.

Pension Costs

The group operates a defined benefit pension scheme for certain of its employees. The amount charged to operating profit in respect of this scheme is the current service cost, and gains and losses on settlements and curtailments and is included as part of staff costs. Past service costs are included in the profit and loss account if the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits within interest payable. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded with the assets of the scheme held separately from the Group in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of deferred tax, is presented separately after other net assets on the face of the balance sheet.

Contributions to the Group's defined contribution pension schemes are charged to the profit and loss account in the period in which they become payable.

Deferred Taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the company has entered into a binding sale agreement and is not proposing to take advantage of rollover relief;
- and

- the recognition of deferred tax assets is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

Notes to the Accounts

continued

Liquid Resources

For the purposes of the cash flow statement, liquid resources are defined as current asset investments and short term deposits.

Finance costs

Finance costs are charged to the profit and loss account over the term of the debt so that the amount charged is at a constant rate on the carrying amount. Finance costs include issue costs, which are initially recognised as a reduction in the proceeds of the associated capital instrument.

Financial Instruments

Preference shares and the related dividend reserve are classified as liabilities, whilst preference share dividends are accounted for as interest payable.

In relation to the disclosures made in note 20:

- short term debtors and creditors are not treated as financial assets or financial liabilities except for the currency disclosures.
- the Group does not hold or issue derivative financial instruments for trading purposes.
- forward exchange contracts are used to fix the value of the related asset or liability in the contract currency and at the contract rate and any gains and losses on these instruments are offset.

2. Turnover and results

The turnover result before taxation and net assets of the Group are attributable to one business segment, the design, manufacture and sale of electronic and computer peripheral equipment for industry and education.

Analysis by geographical market

| | Turnover | | Pre tax (loss)/profit | | Net assets | |
|-------------------|----------------|----------------|-----------------------|------------------|--------------------|--------------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| By origin | | | | | | |
| United Kingdom | 8,326.7 | 6,842.8 | (125.8) | (248.8) | (5,700.6) | (6,216.0) |
| Germany | 313.3 | 276.3 | 59.3 | 110.4 | (983.8) | (1,070.3) |
| United States | 999.4 | 519.5 | 0.9 | (156.9) | 28.6 | 32.1 |
| Exceptional items | – | – | (456.3) | – | – | – |
| | <u>9,639.4</u> | <u>7,638.6</u> | <u>(521.9)</u> | <u>(295.3)</u> | <u>(6,655.8)</u> | <u>(7,254.2)</u> |

| | 2007 £000 | 2006 £000 |
|--------------------------------|----------------|----------------|
| Turnover by destination | | |
| United Kingdom | 4,223.3 | 3,754.0 |
| Rest of Europe | 649.9 | 484.9 |
| Americas | 1,162.1 | 821.2 |
| Africa | 717.7 | 298.7 |
| Middle East | 767.5 | 1,356.2 |
| Far East | 2,118.9 | 923.6 |
| | <u>9,639.4</u> | <u>7,638.6</u> |

3. Other operating expenses

| | 2007 £000 | 2006 £000 |
|--------------------------|----------------|----------------|
| Distribution costs | 1,883.3 | 1,497.7 |
| Administrative costs | | |
| Research and development | 732.4 | 659.0 |
| Other | 1,163.3 | 1,066.5 |
| | <u>3,779.0</u> | <u>3,223.2</u> |

| | | |
|--|---------------|-------------|
| 4. Operating profit | 2007 | 2006 |
| This is stated after charging/(crediting) | £000 | £000 |
| Depreciation and amortisation | | |
| Owned assets | 56.1 | 60.9 |
| Assets held under finance leases and hire purchase contracts | 7.0 | – |
| Foreign exchange differences | 81.3 | 146.0 |
| Auditors' remuneration – as Baker Tilly | | |
| – audit services, Company | – | 36.0 |
| – audit services, Group | – | 40.8 |
| – non audit services, Group | – | 19.6 |
| Auditors' remuneration – as Baker Tilly UK Audit LLP | | |
| – audit services, Company | 36.0 | – |
| – audit services, Group | 60.8 | – |
| – non audit services, Group | 26.6 | – |
| Operating lease rentals | | |
| Plant and machinery | 132.0 | 120.7 |
| Land and buildings | 58.2 | 31.5 |
| 5. Net interest charge | 2007 | 2006 |
| | £000 | £000 |
| Bank loans and overdrafts | 1.2 | 8.9 |
| Other loans | 48.7 | 38.8 |
| Finance leases | 1.0 | – |
| Preference share dividends (note 9) | 96.0 | 101.0 |
| Other interest payable | – | 0.1 |
| | 146.9 | 148.8 |
| Interest receivable | (3.7) | – |
| | 143.2 | 148.8 |

The bank loan attracts interest based upon LIBOR rates (5.468% at 17 April 2007, the maturity date of the bank loan) together with the bank's margin (1.75% plus associated costs). Interest on other loans is at 0.575% per month, accruing daily.

The bank overdraft borrowings included are in sterling and based upon varying margins above Barclays Bank base rate depending upon the overdraft level utilised.

| | | | | |
|--|----------------|-------------------|----------------|-----------------|
| 6. Directors and employees | 2007 | | 2006 | |
| | Average | Period end | Average | Year end |
| Number of employees | | | | |
| Production | 53 | 43 | 50 | 50 |
| Selling and distribution | 28 | 26 | 24 | 26 |
| Administration | 12 | 12 | 10 | 10 |
| Research and development | 11 | 6 | 13 | 13 |
| | 104 | 87 | 97 | 99 |
| Staff costs: | | | 2007 | 2006 |
| | | | £000 | £000 |
| Wages and salaries | | | 2,863.3 | 2,527.8 |
| Social security costs | | | 327.8 | 294.2 |
| Payments to defined contribution pension scheme | | | 132.2 | 123.2 |
| | | | 3,323.3 | 2,945.2 |
| Staff costs include the following in respect of the Directors | | | 2007 | 2006 |
| | | | £000 | £000 |
| Management remuneration, including benefits in kind | | | 254.7 | 195.4 |
| Fees as Directors | | | 14.0 | 35.0 |
| Bonus | | | 11.0 | – |
| Pension costs – defined contribution | | | 20.6 | 17.0 |
| | | | 300.3 | 247.4 |

Notes to the Accounts

continued

6. Directors and employees - continued

| Emoluments in respect of highest paid director amounted to: | 2007 | 2006 |
|--|--------------|--------------|
| | £000 | £000 |
| Management remuneration, including benefits in kind | 149.4 | 118.9 |
| Fees as Directors | 3.5 | 3.0 |
| Bonus | 7.0 | – |
| Pension costs – defined contribution | 12.1 | 10.0 |
| | 172.0 | 131.9 |

There were two directors in the company's defined benefit scheme (2006 – two) during the period.
 There were two directors in the company's defined contribution scheme (2006 – two) during the period.
 The accrued pension of the highest paid director at the period end was £6,900 (2006 – £6,900).

7. Exceptional item

The Consolidated Profit and Loss Account includes as exceptional items:

- £307,600 in respect of the gain on the disposal of the freehold premises and
- charge of £763,900 in respect of expenses incurred in negotiating the solution to the pension deficit, reorganisation and accrued relocation costs.

8. Tax on loss on ordinary activities

| Tax charge for the period | 2007 | 2006 |
|--|------------------|------------------|
| | £000 | £000 |
| UK corporation tax – adjustments in respect of previous years | – | – |
| Adjustments in respect of previous years | – | – |
| Current tax | – | – |
| Tax reconciliation | | |
| Loss on ordinary activities before tax | (521.9) | (295.3) |
| Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% | (156.6) | (88.6) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 56.1 | 39.9 |
| Capital allowances in excess of depreciation | (4.1) | (3.6) |
| Profit on disposal of fixed assets | (92.3) | – |
| Pension contributions in excess of charge | (56.5) | (33.3) |
| Chargeable gain | 59.5 | – |
| Losses carried forward | 193.9 | 85.6 |
| Current tax | – | – |

9. Preference Share Dividends

| | 2007 | 2006 |
|--|-------------|--------------|
| | £000 | £000 |
| Preference dividends appropriated but not paid | 72.0 | 77.8 |
| Amortisation of preference share issue costs | 24.0 | 23.2 |
| | 96.0 | 101.0 |

10. Results of Feedback plc

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the parent company is not presented as part of these financial statements. The consolidated loss for the financial period includes a loss before dividends of £337,100 (2006 – £193,200) which is dealt with in the financial statements of the parent company.

11. Loss per share

Basic loss per share for the period ended 31 May 2007 is based on the Group loss on ordinary activities after taxation and preference dividends of £521,900 (2006 – loss of £295,300) attributed to 15,623,305 Ordinary Shares, being the weighted average number of shares in issue throughout the period (2006 – 12,319,645).

The diluted loss per share is calculated allowing for the full conversion of the Preference Shares. However, in accordance with Financial Reporting Standard 14, as these conversions do not have a dilutive effect the earnings per share figure remains unaltered.

12. Fixed Asset Investments

| | 2007 £000 | Company 2006 £000 |
|-------------------------------------|--------------------|-------------------------|
| Shares in Group undertakings | | |
| Cost | | |
| At 1 April 2006 and 31 May 2007 | 1,989.0 | 1,989.0 |
| Provisions | | |
| At 1 April 2006 and 31 May 2007 | (1,595.1) | (1,595.1) |
| Net book value | | |
| At 31 May 2007 | 393.9 | 393.9 |

All of the above investments are unlisted.

Subsidiary companies

Particulars of principal subsidiary companies, all the shares of which are beneficially held by Feedback plc, are as follows:

| Company | Activity | Country of operation and incorporation | Proportion of shares held |
|-------------------------------------|---|--|---------------------------|
| Feedback Instruments Limited | Design and manufacture of electronic equipment for industry and education | England | 100% Ordinary £1 |
| Feedback Data Limited | Design and manufacture of computer peripheral equipment for industry | England | 100% Ordinary £1 |
| Feedback Incorporated | Distribution of products for Feedback Instruments Limited and other companies | United States of America | 100% Common stock |
| Feedback Data GmbH | Distribution of products for Feedback Data Limited | Germany | 100% Specific capital |

Feedback Data GmbH is a subsidiary of Feedback Data Limited.

All the subsidiary companies have been included in these consolidated financial statements.

Notes to the Accounts

continued

13. Tangible fixed assets

| Group | Land and Buildings £000 | Plant and Equipment £000 | Motor Vehicles £000 | Total £000 |
|---------------------------|--------------------------------------|---------------------------------------|----------------------------------|----------------------|
| Cost or valuation: | | | | |
| At 1 April 2006 | 675.0 | 1,162.7 | – | 1,837.7 |
| Additions | – | 10.3 | 46.1 | 56.4 |
| Disposals | (675.0) | (3.6) | – | (678.6) |
| Exchange adjustments | – | (24.3) | – | (24.3) |
| At 31 May 2007 | – | 1,145.1 | 46.1 | 1,191.2 |
| Depreciation: | | | | |
| At 1 April 2006 | 10.1 | 1,112.7 | – | 1,122.8 |
| Charge for the year | 17.7 | 35.4 | 10.0 | 63.1 |
| Disposals | (27.8) | (3.6) | – | (31.4) |
| Exchange adjustments | – | (23.2) | – | (23.2) |
| At 31 May 2007 | – | 1,121.3 | 10.0 | 1,131.3 |
| Net book value: | | | | |
| At 31 May 2007 | – | 23.8 | 36.1 | 59.9 |
| At 31 March 2006 | 664.9 | 50.0 | – | 714.9 |
| Company | Land and Buildings £000 | Plant and Equipment £000 | Motor Vehicles £000 | Total £000 |
| Cost or valuation: | | | | |
| At 1 April 2006 | 675.0 | 13.2 | – | 688.2 |
| Additions | – | – | 31.7 | 31.7 |
| Disposals | (675.0) | – | – | (675.0) |
| At 31 May 2007 | – | 13.2 | 31.7 | 44.9 |
| Depreciation: | | | | |
| At 1 April 2006 | 10.1 | 12.8 | – | 22.9 |
| Charge for the year | 17.7 | 0.3 | 7.0 | 25.0 |
| Disposals | (27.8) | – | – | (27.8) |
| At 31 May 2007 | – | 13.1 | 7.0 | 20.1 |
| Net book value: | | | | |
| At 31 May 2007 | – | 0.1 | 24.7 | 24.8 |
| At 31 March 2006 | 664.9 | 0.4 | – | 665.3 |

13. Tangible fixed assets - continued

Group and Company

| | |
|--|--------------|
| The cost or valuation of land and buildings at 1 April 2006 comprised the following: | £000 |
| Freehold property | |
| Professional valuation (in the year to 31 March 2006) | 675.0 |

The freehold land and buildings were valued, for bank loan security purposes, at £675,000 on a continuing existing use basis on 21 July 2005 by J. N. Cleverton MRICS, consultant Chartered Surveyor to Stiles Harold Williams.

If the freehold property had not been revalued it would have been included at the following amounts:

| | Group | | Company | |
|--------------------------|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Cost | 249.2 | 249.2 | 249.2 | 249.2 |
| Accumulated depreciation | (186.4) | (179.8) | (186.4) | (179.8) |
| Net book value | <u>62.8</u> | <u>69.4</u> | <u>62.8</u> | <u>69.4</u> |

The Company has entered into a contract for the sale of its freehold premises for the sum of £955,000. Although the sale has not yet been completed, the disposal and the gain arising therefrom are included in these accounts.

14. Provisions for liabilities and charges

Deferred taxation

The amount provided was £nil (2006 – £nil) and the total potential deferred taxation asset at 30% (2006 – 30%) was as follows:

| | Group | | Company | |
|--------------------------------|------------------|------------------|----------------|----------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Total potential asset | | | | |
| Accelerated capital allowances | (27.4) | (30.7) | (1.9) | (0.8) |
| Other timing differences | (2,392.3) | (2,469.9) | (148.1) | (163.2) |
| Losses | (1,093.7) | (892.7) | (116.7) | (25.0) |
| Potential asset | <u>(3,513.4)</u> | <u>(3,393.3)</u> | <u>(266.7)</u> | <u>(189.0)</u> |

The deferred tax asset has not been recognised due to the uncertainty of the asset reversing in the foreseeable future.

15. Stocks

| | Group | |
|-------------------------------|----------------|----------------|
| | 2007 £000 | 2006 £000 |
| Raw materials and consumables | 821.2 | 574.1 |
| Work in progress | 257.7 | 123.2 |
| Finished goods | 100.6 | 303.0 |
| | <u>1,179.5</u> | <u>1,000.3</u> |

Notes to the Accounts

continued

16. Debtors

| Amounts falling due within one year: | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Trade debtors | 1,498.2 | 1,503.4 | – | – |
| Amounts owing by subsidiary undertakings | – | – | 1,138.2 | 1,128.2 |
| Other debtors | 1,002.9 | 8.3 | 930.0 | 4.6 |
| Prepayments | 129.8 | 104.6 | 23.6 | 4.2 |
| | <u>2,630.9</u> | <u>1,616.3</u> | <u>2,091.8</u> | <u>1,137.0</u> |

17. Related party transactions

Mr. T. W. G. Charlton, whilst a non-executive director of the company, lent the company the sum of \$1,000,000 on 12 December 2003. Mr Charlton resigned from the board on 12 November 2004. The original terms of the loan were renegotiated, effective from 1 December 2004, the loan becoming repayable on 30 September 2009, with interest at 0.575% per month accruing daily. The capital amount outstanding at the balance sheet date was \$1,000,000. The arrangements regarding the loan from Mr. Charlton were subject to change as part of the Company Voluntary Arrangement entered into on 2 July 2007 - Note 27 "Post Balance Sheet Events" refers.

18. Other creditors

| Amounts falling due within one year: | Group | | Company | |
|--------------------------------------|----------------|----------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Trade creditors | 522.9 | 557.0 | – | – |
| Amounts owed to subsidiary | – | – | 6.8 | 6.8 |
| Other creditors | 540.3 | 286.5 | 72.5 | 2.1 |
| Corporation tax | – | 4.9 | – | – |
| Other taxes and social security | 139.4 | 143.6 | 3.8 | 47.2 |
| Accruals and deferred income | 915.2 | 455.4 | 399.9 | 61.7 |
| | <u>2,117.8</u> | <u>1,447.4</u> | <u>483.0</u> | <u>117.8</u> |

19. Borrowings

| Amounts falling due within one year: | Group | | Company | |
|--|--------------|----------------|--------------|----------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Bank loan and overdraft | 398.7 | 150.8 | 350.0 | 150.8 |
| Preference shares (note 21) | – | 778.2 | – | 778.2 |
| Dividend reserve | – | 203.1 | – | 203.1 |
| Obligations under finance leases and hire purchase contracts | 16.1 | – | 16.1 | – |
| | <u>414.8</u> | <u>1,132.1</u> | <u>366.1</u> | <u>1,132.1</u> |

The bank loan and overdraft are secured by a fixed and floating charge over the Group's assets. There is a right of set-off against cash at bank in connection with overdrafts of £398,700 (2006 – £120,800).

The Dividend Reserve represents dividends unpaid on the Preference Shares. These have not been paid since 30 September 2003.

On 30 March 2007, the remaining unconverted preference shares were subject to a forced conversion together with the capitalisation of the Dividend Reserve. See also Note 21 - "Share Capital" and Note 27 - "Post Balance Sheet Events".

19. Borrowings - continued

Amounts falling due after more than one year:

| | Group | | Company | |
|---------------------------|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Bank loans | – | 2.5 | – | 2.5 |
| Loan from former director | 505.5 | 576.5 | 505.5 | 576.5 |
| | 505.5 | 579.0 | 505.5 | 579.0 |

Bank loan

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| In more than 1 year but not more than 2 years | – | 2.5 | – | 2.5 |

Loan from former director

| | | | | |
|--|--------------|-------|--------------|-------|
| In more than 2 years but not more than 5 years | 505.5 | 576.5 | 505.5 | 576.5 |
|--|--------------|-------|--------------|-------|

Finance liabilities are due:

| | Bank loan & overdraft | | Finance leases | | Loan from Director | | Non-equity shares | | Total | |
|--------------------------------------|-----------------------|--------------|----------------|--------------|--------------------|--------------|-------------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| In 1 year or less | 398.7 | 150.8 | 16.1 | – | – | – | – | 981.3 | 414.8 | 1,132.1 |
| In more than 1 year but less than 2 | – | 2.5 | – | – | – | – | – | – | – | 2.5 |
| In more than 2 years but less than 5 | – | – | – | – | 505.5 | 576.5 | – | – | 505.5 | 576.5 |
| | 398.7 | 153.3 | 16.1 | – | 505.5 | 576.5 | – | 981.3 | 920.3 | 1,711.1 |

Notes to the Accounts

continued

20. Financial Instruments

a) Interest rate and currency borrowings

The currency and interest rate exposure of the Group's borrowing is shown below:

| | Total | | Floating borrowings | | Fixed borrowings | |
|------------|--------------|----------------|---------------------|--------------|------------------|----------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Sterling | 414.8 | 1,134.6 | 414.8 | 153.3 | – | 981.3 |
| US Dollars | 505.5 | 576.5 | – | – | 505.5 | 576.5 |
| | <u>920.3</u> | <u>1,711.1</u> | <u>414.8</u> | <u>153.3</u> | <u>505.5</u> | <u>1,557.8</u> |

The floating rate borrowings comprise sterling bank borrowings based upon LIBOR rates (5.468% at 17 April 2007, the maturity date of the bank loan) together with the bank's margin (1.75% plus associated costs).

The fixed rate borrowings comprise the loan from a former director (resigned 12 November 2004) bearing interest of 0.575% per month, accruing daily. The loan is repayable on 30 September 2009.

The bank overdraft borrowings included are in sterling and based upon varying margins above Barclays Bank base rate depending upon the overdraft level utilised.

b) Interest rate and currency of cash balances

Floating rate financial assets of £486,400 (2006 – £805,700) comprise substantially of sterling and US \$ cash deposits at call. There are no fixed rate financial assets.

c) Currency exposure

All overseas subsidiaries of the Group operate in the local currency of operation.

The monetary assets and liabilities of the Group that are not denominated in the functional currency of the operating unit concerned are shown below.

| Functional currency of group operations | Net foreign currency monetary assets | | |
|---|--------------------------------------|--------------|---------------|
| | US Dollar £000 | Euro £000 | Total £000 |
| As at 31 May 2007 | | | |
| Sterling | <u>98.4</u> | <u>51.6</u> | <u>150.0</u> |
| As at 31 March 2006 | | | |
| Sterling | <u>56.8</u> | <u>231.0</u> | <u>287.8</u> |

d) Fair values of financial instruments

The directors believe that for short term financial instruments such as short term debt and the current portion of long term debt, historical cost approximates to fair value due to the short term period between origination and realisation. This also applies to long term floating borrowings since the interest payments are reset to market value at frequent intervals.

e) Undrawn bank facilities

The Group has no undrawn committed bank borrowing facilities available.

The Group has a net overdraft facility of £200,000 which it utilises to manage its liquidity risk.

No Sterling bank overdraft facilities were utilised at 31 May 2007 (2006 – £nil).

The Group has also guaranteed by nature of a letter of credit expiring on 31 March 2008, bank facilities provided to its overseas subsidiary undertaking, Feedback Incorporated, to a maximum of \$125,000.

At the Balance Sheet date, facilities utilised amounted to \$nil (2006 – \$nil).

The Group overdraft facilities are due for renewal on 31 January 2008 and the directors believe that the facilities will continue to be made available thereafter in order to meet the Group's appropriate funding requirements.

21. Share capital

| | 2007 £000 | 2006 £000 |
|---|----------------|----------------|
| Authorised share capital of Feedback plc: | | |
| 30,000,000 Ordinary Shares of 10p each | 3,000.0 | 3,000.0 |
| 2,500,000 Convertible Redeemable Cumulative Preference Shares of £1 each | 2,500.0 | 2,500.0 |
| | <u>5,500.0</u> | <u>5,500.0</u> |
| Allotted, called up and fully paid share capital | | |
| 17,611,841 Ordinary Shares of 10p each (2006 – 12,344,896) | 1,761.2 | 1,234.5 |
| Convertible Redeemable Cumulative Preference Shares of £1 each (2006 – 778,239) (note 19) | – | 778.2 |
| | <u>1,761.2</u> | <u>2,012.7</u> |

Each Convertible Preference Share was capable of being converted by the holders into five Ordinary Shares at any time prior to 31 March 2007. Any unconverted Preference Shares were due to be redeemed by the company on 31 March 2007 at par. The Convertible Preference Shares are entitled to a fixed preferential dividend of 10 per cent (net) per annum payable half yearly on 31 March and 30 September. These shares carried voting rights should the payment of the dividend be in arrears by more than six months as provided in the Articles of Association. Further, the terms of the Preference Shares stated that unpaid dividends should be deemed to be an additional nominal amount paid up on on the relevant Preference Shares. On 1 March 2007 there were 365,065 Preference Shares remaining in issue, and as these represented less than 25% of the original preference shares issued in accordance with the terms of the Preference Shares, the company gave notice to the remaining Preference Shareholders of its intention to compulsorily convert all the remaining Preference Shares into Ordinary Shares. This compulsory conversion took effect on 30 March 2007.

During the period to 31 May 2007, Convertible Preference Shares were converted into Ordinary Shares as follows:

| | Ordinary Shares of 10p each | | | | Convertible Redeemable Cumulative Preference Shares of £1 each | | | |
|-----------------------------|-----------------------------|----------------|----------------|--------------|--|--------------|----------------|--------------|
| | 2007 Number | 2007 £000 | 2006 Number | 2006 £000 | 2007 Number | 2007 £000 | 2006 Number | 2006 £000 |
| In issue 1 April 2006 | 12,344,896 | 1,234.5 | 12,084,346 | 1,208.4 | 778,239 | 778.2 | 830,349 | 830.4 |
| Converted during the period | 5,266,945 | 526.7 | 260,550 | 26.1 | (778,239) | (778.2) | (52,110) | (52.2) |
| In issue 31 May 2007 | <u>17,611,841</u> | <u>1,761.2</u> | 12,344,896 | 1,234.5 | – | – | 778,239 | 778.2 |

See also Note 27 - "Post Balance Sheet Events".

22. Financial commitments

| Annual commitments under operating leases expiring: | Land and Buildings | | Equipment | |
|---|--------------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Within one year | – | 81.5 | 31.0 | 72.9 |
| Within two to five years | – | – | 137.2 | 87.7 |
| | <u>–</u> | <u>81.5</u> | <u>168.2</u> | <u>160.6</u> |

Notes to the Accounts

continued

22. Financial commitments - continued

The Company has given cross guarantees in respect of bank borrowings of its UK subsidiary undertakings at the year end of £48,700 (2006 – £32,500).

The Company has also guaranteed by nature of a letter of credit expiring on 31 March 2008, bank facilities provided to its overseas subsidiary undertaking, Feedback Incorporated, to a maximum sum of \$125,000.

At the Balance Sheet date, facilities utilised amounted to \$nil (2006 – \$nil).

23. Reserves

| | Share Premium | Revaluation Reserve | Capital Reserve | Dividend Reserve | Profit & Loss Account | Total |
|--|------------------|------------------------|--------------------|---------------------|-----------------------------|------------------|
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Group | | | | | | |
| At 1 April 2006 | 409.9 | 595.6 | 299.9 | – | (9,794.2) | (8,488.8) |
| Retained loss for the period | – | – | – | – | (521.9) | (521.9) |
| Exchange adjustments | – | – | – | – | 22.9 | 22.9 |
| Preference share issue costs | – | – | – | – | 24.1 | 24.1 |
| Premium arising on conversion of preference shares | 526.7 | – | – | – | – | 526.7 |
| Pension adjustments | – | – | – | – | 20.0 | 20.0 |
| Transfer from revaluation reserve | – | (595.6) | – | – | 595.6 | – |
| At 31 May 2007 | <u>936.6</u> | <u>–</u> | <u>299.9</u> | <u>–</u> | <u>(9,653.5)</u> | <u>(8,417.0)</u> |
| Company | | | | | | |
| At 1 April 2006 | 409.9 | 595.6 | – | – | (2,345.1) | (1,339.6) |
| Retained loss for the period | – | – | – | – | (337.1) | (337.1) |
| Preference share issue costs | – | – | – | – | 24.1 | 24.1 |
| Premium arising on conversion of preference shares | 526.7 | – | – | – | – | 526.7 |
| Pension adjustments | – | – | – | – | 27.0 | 27.0 |
| Transfer from revaluation reserve | – | (595.6) | – | – | 595.6 | – |
| At 31 May 2007 | <u>936.6</u> | <u>–</u> | <u>–</u> | <u>–</u> | <u>(2,035.5)</u> | <u>(1,098.9)</u> |

The cumulative amount of goodwill written off directly to reserves at 31 May 2007 was £670,800 (2006 – £670,800).

Costs of £228,000 were incurred in respect of the Preference Share issue. These were written off against the Share Premium Account in the year to 31 March 1998 and have been charged to the Profit and Loss Account over the life of the instrument.

The effect on the profit and loss reserve of the pension scheme liability is as follows:

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Profit and loss reserve excluding pension liability | (1,679.1) | (1,561.2) | (1,541.9) | (1,801.1) |
| Pension liability | (7,974.4) | (8,233.0) | (493.6) | (544.0) |
| Profit and loss reserve | <u>(9,653.5)</u> | <u>(9,794.2)</u> | <u>(2,035.5)</u> | <u>(2,345.1)</u> |

24. Reconciliation of movements in shareholders' funds

| | Group | | Company | |
|--|--------------------|--------------|------------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Opening shareholders' funds | (7,254.3) | (7,187.2) | (105.1) | (250.2) |
| (Loss) for the financial period | (521.9) | (295.3) | (337.1) | (192.6) |
| Other recognised gains/(losses) relating to the period | | | | |
| Foreign exchange adjustments | 22.9 | 86.5 | – | – |
| Revaluation movement | – | 223.2 | – | 223.2 |
| Actuarial gain/(loss) on pension scheme | 20.0 | (157.0) | 27.0 | 39.0 |
| Premium on conversion of preference shares | 526.7 | 52.3 | 526.7 | 52.3 |
| Issue of ordinary shares | 526.7 | – | 526.7 | – |
| Preference share issue costs | 24.1 | 23.2 | 24.1 | 23.2 |
| Net addition to/(deduction from) shareholders' funds | 598.5 | (67.1) | 767.4 | 145.1 |
| Net (liabilities)/assets at 31 May 2007 | (6,655.8) | (7,254.3) | 662.3 | (105.1) |

25. Contingent liabilities

There are contingent liabilities in the event of any claim for breach or non-performance of the terms of overseas contracts against which bank guarantees have been issued totalling to £316,600 (2006 – £294,700).

26. Pension commitments

At 31 May 2007 the Group operated three pension schemes, two of the defined contribution type, and one of the defined benefit type. See also Note 27 - "Post Balance Sheet Events".

a) Defined contribution schemes

The UK scheme commenced on 1 August 2004 and is open to all employees, including executive directors.

Two Company directors were members of the scheme at 31 May 2007 (2006 – two).

The assets of the scheme are held separately from those of the Group in an independently administered fund.

The pension cost represents contributions payable by the company and amounted to £121,400 (2006 – £115,900). There were no outstanding contributions at the year end.

Feedback Incorporated also operates a defined contribution scheme.

b) Defined benefit scheme

This scheme was closed to new members with effect from 1 April 2004, and to future benefit accrual for existing members at 1 August 2004.

Two Company directors were members of the scheme at 31 May 2007 (2006 – two).

The Scheme is funded with the assets being held by the Trustees separately from the assets of the Company.

The pension costs are determined in accordance with the advice of a professionally qualified independent actuary.

A valuation update was carried out on 28 February 2007, under the assumptions prescribed in Financial Reporting Standard 17 "Retirement Benefits".

Notes to the Accounts

continued

26. Pension commitments - continued

During the period the Directors continued to negotiate to find a solution to the pension deficit and an agreement was reached with the Pension Regulator and the Pension Protection Fund. As part of that agreement, an actuarial valuation of the defined benefit pension scheme was carried out as at 28 February 2007 and this formed the basis for computing the deficit. Consequently the Directors have used this valuation, amended to reflect payments made between 28 February 2007 and 31 May 2007, as representing the valuation of the liability in the balance sheets of the Group and the Company. This represents a departure from Financial Reporting Standard 17 "Retirement Benefits" but the Directors believe that this gives a true valuation of the liability at the balance sheet date.

At the valuation date, the market value of the assets in the scheme was £11,669,000. The value of these assets represented 59.1% of the value of the benefits that had accrued to members, after allowing for future increases in earnings.

These accounting statements reflect the change in the Group's accounting policies in relation to pension scheme accounting, as explained in Note 1.

After full consultation with the Scheme's trustees and advisors, in March 2004 the Company made an application to the Occupational Pensions Regulatory Authority [Opra] (now the Pensions Regulator) to extend the period in which the funding shortfall can be rectified. Opra's acceptance of this application was confirmed in February 2005. The Company continues to make contributions in line with this agreement, although other provisions within that agreement no longer apply.

The Group pension contributions for the year were £486,600 (2005 – £417,100). The outstanding liability in the funding of the scheme at the period end was £7,974,400 (2006 – £8,233,000).

No additional contributions were paid in respect of scheme expenses.

The information to be disclosed as described by FRS 17 is as follows:

The major assumptions used by the actuary were:

| | At 28 February 2007 | At 31 March 2006 | At 31 March 2005 |
|--------------------------|---------------------|------------------|------------------|
| Discount rate | 5.20% | 5.00% | 5.40% |
| Salary growth | – | – | – |
| Price inflation | 3.10% | 2.90% | 2.90% |
| Limited price indexation | 2.90% | 2.70% | 2.75% |

The expected rates of return and the market value of the Scheme's assets were:

| Group | At 28 February 2007 | At 31 March 2006 | At 31 March 2005 |
|----------|---------------------|------------------|------------------|
| | £000s | £000s | £000s |
| Equities | 7.20% pa 6,312 | 7.00% pa 6,590 | 7.40% pa 7,127 |
| Bonds | 5.20% pa 5,232 | 5.00% pa 4,970 | 5.40% pa 2,599 |
| Cash | 5.25% pa 125 | 4.50% pa 19 | 4.75% pa 56 |
| Company | At 28 February 2007 | At 31 March 2006 | At 31 March 2005 |
| | £000s | £000s | £000s |
| Equities | 7.20% pa 418 | 7.20% pa 436 | 5.40% pa 516 |
| Bonds | 5.20% pa 346 | 5.20% pa 329 | 5.40% pa 188 |
| Cash | 5.25% pa 9 | 4.50% pa 2 | 4.75% pa 4 |

The valuations of the Scheme's assets and liabilities were:

| Group | At 28 February 2007 | At 31 March 2006 | At 31 March 2005 |
|------------------------------|---------------------|------------------|------------------|
| | £000s | £000s | £000s |
| Total value of assets | 11,669 | 11,579 | 9,782 |
| Present value of liabilities | 19,748 | 19,812 | 17,969 |
| Deficit in the scheme | (8,079) | (8,233) | (8,187) |
| Company | £000s | £000s | £000s |
| Total value of assets | 773 | 767 | 708 |
| Present value of liabilities | (1,308) | (1,311) | (1,300) |
| Deficit in the Scheme | (535) | (544) | (592) |

26. Pension commitments - continued

Analysis of the amount credited to other finance income

| | 2006/07 | 2005/06 | 2004/05 |
|---------------------------|--------------|--------------|--------------|
| | £000s | £000s | £000s |
| Expected return on assets | 639 | 664 | 623 |
| Interest on liabilities | (887) | (970) | (933) |
| <i>Net Return</i> | <u>(248)</u> | <u>(306)</u> | <u>(310)</u> |

Analysis of the amount recognised in the Statement of Total Recognised Gains & Losses (STRGL)

| | 2006/07 | 2005/06 | 2004/05 |
|--|-----------|--------------|--------------|
| | £000s | £000s | £000s |
| Actual return less expected return on assets | (265) | 1,315 | 74 |
| Experience gains and losses arising on liabilities | - | 596 | (494) |
| Changes in the assumptions underlying the present value of liabilities | 285 | (2,068) | (352) |
| <i>Actuarial gain/(loss) recognised in STRGL</i> | <u>20</u> | <u>(157)</u> | <u>(772)</u> |

Movement in surplus during the year

| | | | |
|--------------------------------------|----------------|----------------|----------------|
| Deficit in Scheme at start of year | (8,233) | (8,187) | (8,095) |
| Employer current service cost | - | - | (116) |
| Employer contributions received | 382 | 417 | 626 |
| Past service costs | - | - | - |
| Gain on settlements and curtailments | - | - | 480 |
| Other finance income | (248) | (306) | (310) |
| Actuarial gain/(loss) | 20 | (157) | (772) |
| Deficit in Scheme at end of year | <u>(8,079)</u> | <u>(8,233)</u> | <u>(8,187)</u> |

History of experience gains and losses:

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|-------|-------|-------|---------|---------|
| | £000 | £000 | £000 | £000 | £000 |
| Difference between actual & expected return on scheme assets: | | | | | |
| Amount | (265) | 1,315 | 74 | 916 | (2,680) |
| Percentage of scheme assets | -2% | 11% | 1% | 10% | -36% |
| Experience gains and losses on scheme liabilities: | | | | | |
| Amount | - | 596 | (494) | (1,593) | (368) |
| Percentage of scheme assets | 0% | 3% | -3% | -9% | -3% |
| Amount recognised in STRGL: | | | | | |
| Amount | 20 | (157) | (772) | (1,128) | (4,157) |
| Percentage of scheme assets | 0% | -1% | -4% | -7% | -29% |

27. Post Balance Sheet Events - Restructuring

a) Agreement with the Pension Protection Fund (PPF) and Company Voluntary Arrangement (CVA)

On 2 July 2007, the Company and its trading subsidiaries, Feedback Instruments Limited (FIL) and Feedback Data Limited (FDL) entered into a Company Voluntary Arrangement with its creditors under which all external creditors will be paid in full save for:

- (i) the liability to the Trustees of the Feedback Pension Scheme and
- (ii) the liability to Mr T.W.G. Charlton in respect of the loan made by him to the Company.

In connection with the CVA, the Company announced a Proposed Share Capital Reorganisation and Reduction of Capital and Placing of 46,666,667 New Ordinary Shares of 3 pence per share.

The Company, together with FIL and FDL, agreed terms with the Board of the PPF whereby the Company:

- (i) is required to pay the net sum of £1,200,000 in cash to the Trustees of the Feedback Pension Scheme, £700,000 of which is to be paid from the proceeds of the Placing and £500,000 of which is to be paid from the proceeds of the sale of the Company's freehold premises at Park Road, Crowborough and
- (ii) allocates to the Trustees of the Feedback Pension Scheme such number of New Ordinary Shares as equal 18% of the enlarged share capital of the Company.

Notes to the Accounts

continued

27. Post Balance Sheet Events - Restructuring - continued

At the date of signing of this Report and Accounts, £700,000 has been paid to the Trustees from the proceeds of the Placing. The Company is in ongoing negotiations for the relocation from its Park Road site, and the final amount of £500,000 due will be paid upon completion of the contract for sale.

In addition, the Company agreed with Mr Charlton that the loan of \$1,000,000 provided by him would be written down by 80% and the balance to be satisfied by the allotment of 3,355,141 New Ordinary Shares at the Placing price.

b) Placing of 46,666,667 New Ordinary Shares at 3 pence per share

The Placing, which was successfully completed on 3 July 2007, raised £1,400,000 before expenses. These shares, which represented 56.58% of the total issued share capital of the Company following the proposals were admitted to the Alternative Investment Market on 3 July 2007.

Certain of the Group's directors agreed to participate in the Placing. Of the Company's directors, Messrs. Sawyer and Bushell agreed to acquire 500,000 shares and 250,000 shares respectively and Mrs H. Westcott, spouse of Professor J.H. Westcott, agreed to acquire 3,333,333 shares.

c) Share Capital Reorganisation

At an Extraordinary General Meeting of the Company and separate Shareholder Meetings held on 2 July 2007, it was resolved that:

- (i) each of the existing 17,611,841 issued Ordinary Shares of 10 pence in the capital of the Company would be subdivided in one New Ordinary Share of 0.25 pence and one Deferred Share of 9.75 pence;
- (ii) the remaining authorised but unissued Ordinary Shares of 10 pence each be subdivided into 40 New Ordinary Shares of 0.25 pence each;
- (iii) subject to the approval of the Court, the Company's Share Premium Account be cancelled;
- (iv) the ordinary share capital of the Company be reduced from £3,000,000 divided into 513,138,201 New Ordinary Shares of 0.25 pence and 17,611,841 Deferred Shares of 9.75 pence each to £1,282,845.5025 divided into 513,138,201 New Ordinary Shares of 0.25 pence each and such reduction be effected by cancelling and extinguishing altogether the 17,611,841 Deferred Shares of 9.75 pence each.

Application has been made to the Court for the hearing of the Company's petition, and this is provisionally scheduled to take place in November 2007.

d) Pro Forma Balance Sheet

A pro forma balance sheet, for illustrative purposes only, has been included within the Chairman's and Chief Executive's Statement.

e) Appointment of Non-executive Director

On 25 July 2007, the Company announced that Mr David Barton had been appointed to the Board as a non-executive director. At the date of signing these Accounts, Mr Barton holds 4,166,667 New Ordinary Shares in the Company.

Notice of Annual General Meeting

Proposed cancellation of the Deferred Shares

Shareholders will recall that Resolution 7 put before the Extraordinary General Meeting of the Company held on 2 July 2007 proposed the cancellation of the Deferred Shares of 9.75p each by way of a reduction of capital. That resolution was passed by the members present at the EGM by a majority of 6,742,724. Following the EGM, the resolution was lodged with the Registrar of Companies and the Company's Petition seeking the Court's confirmation of the reduction of the Company's share capital and cancellation of the Company's share premium account was issued. However, as a result of a query raised by the Registrar of Companies on filing a copy of the Resolution with him, it was discovered that, due to an administrative error, the resolution referred to above inadvertently misstated the Company's authorised share capital as £3,000,000 instead of £5,500,000¹. The effect of this error, whilst making no difference to the end result, is to invalidate the Resolution in the form in which it was originally passed and to necessitate the passing of a fresh resolution by the members of the Company in order to allow the proposed cancellation of the deferred shares to go ahead as planned. In the meantime, the hearing of the Court application has been adjourned pending the proposal and passing of a new resolution.

Resolution 5, set out in the Notice on page this page hereof, is substantively the same as Resolution 7 passed at the Company's Extraordinary General Meeting and referred to above, save that the Company's authorised share capital has been correctly stated as being £5,500,000.

Members will recall that, as set out more fully in the Circular to members dated 5 June 2007, the object of the proposed Reduction of Capital, which includes both the cancellation of the Deferred Shares and the cancellation of the Company's share premium account, which was the subject of Resolution 6 passed at the EGM of 2 July also passed by a substantial majority, is to create a reserve which may be set against the accumulated deficit on the Company's profit and loss account and to bring forward the time at which the Company may be in a position to pay dividends.

If Resolution 5 is passed on 30 October 2007 the Directors propose to restore the Company's petition for hearing before the Court. Whilst the Directors are not in a position to guarantee the timetable, since this depends, *inter alia*, on the Court's schedule, they anticipate that the process will be complete, and the Reduction of capital will take effect, before the end of this calendar year.

Notice is hereby given that the forty ninth annual general meeting of Feedback plc (the 'Company') will be held at The Spa Hotel, Mount Ephraim, Tunbridge Wells, Kent, TN4 8XJ at 11.00 am on 30 October 2007 when the following business will be transacted:

To consider and, if thought fit, pass the following ordinary resolutions:

Ordinary Resolution

1. To approve and adopt the report of the directors and the statement of accounts of the Company for the period ended 31 May 2007 with the auditors' report thereon.
2. To re-elect as a Director Mr. G. B. M. Bushell (age 51) who is retiring by rotation and offers himself for re-election.
3. To re-appoint Mr. D. Barton (age 62) as a Director.
4. To re-appoint Baker Tilly UK Audit LLP as auditors and to authorise the Directors to fix their remuneration.

To consider and, if thought fit, pass the following special resolutions:

Special Resolution

5. That the capital of the Company be reduced from £5,500,000.00 divided into 513,138,201 New Ordinary Shares of 0.25 pence each ("Ordinary Shares"), 17,611,841 Deferred Shares ("Deferred Shares") of 9.75 pence each and 2,500,000 10 per cent. (net) Convertible Redeemable Cumulative Preference Shares ("Preference Shares") of £1.00 each to £1,282,845.5025 divided into 513,138,201 Ordinary Shares of 0.25 pence each, and such reduction be effected by cancelling and extinguishing altogether (i) the 17,611,841 issued Deferred Shares of 9.75 pence each and (ii) the 2,500,000 unissued Preference Shares of £1.00 each.

Notice of Annual General Meeting

continued

Special Resolution

6. That the directors be and are hereby empowered in substitution for any existing power under section 95 of the Companies Act 1985 (the "Act") but without prejudice to the exercise of any such power prior to the passing of these resolutions, pursuant to section 95 of the Act, to allot equity securities (within the meaning of section 94(2) of the Act) pursuant to the authority given in accordance with section 80 of the Act granted above, as if section 89 (1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities for cash up to an aggregate nominal value of £371,070.27.

Such power (unless previously revoked, varied or extended by the Company in general meeting) to expire on

- a) the conclusion of the next annual general meeting of the Company, or
- b) 15 months from the date hereof, whichever is the earlier, save that the Company may before such expiry make offers or agreements that would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of such offers or agreements as if the power conferred thereby had not expired.

By order of the Board,
G. B. M. Bushell
Secretary

26 September 2007

Note:

Copies of Directors' Service Contracts will be available for inspection at the registered office during business hours from the date of the above notice until 9.00 a.m. on 30 October 2007 and at the place of the meeting from 10.00 a.m. until the conclusion of the meeting.

¹ The error had arisen because the 2,500,000 10% (net) convertible redeemable cumulative preference shares of £1.00 each, created in 1997 and none of which had ever been issued, had been overlooked when calculating the Company's authorised share capital.

Form of Proxy

I/We (full name(s)) _____

of (address) _____

being a holder(s) of **Ordinary Shares** in the above-named Company hereby appoint the Chairman of the Meeting or

_____ as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on 30 October 2007 and at any adjournment thereof.

Please indicate which way you wish your proxy to vote by inserting 'x' in the appropriate box.

Resolution 1

Adoption of the Report and Accounts.

Resolution 2

Re-election of Mr. G. B. M. Bushell as a Director.

Resolution 3

Re-appointment of Mr. D. Barton as a Director.

Resolution 4

Re-appointment and remuneration of Auditors.

Special Resolution 5

Reduction of Share Capital.

Special Resolution 6

Directors powers to allot securities.

| For | Against |
|-----|---------|
| | |
| | |
| | |
| | |
| | |
| | |

Signed _____ Date _____

NOTES:

1. If you wish to appoint some other person as your proxy, strike out "the Chairman of the Meeting", insert the name of your proxy and initial the amendment.
2. If no indication is given the proxy will vote or abstain from voting at his discretion.
3. If the appointor is a corporation this form of proxy shall be under its common seal or under the hand of an officer or attorney duly authorised in writing.
4. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.
5. To be effective this form of proxy, together with any authority under which it is signed, must be returned so as to reach the Company's Registrars not later than 48 hours prior to the start of the meeting.

SECOND FOLD

BUSINESS REPLY SERVICE
Licence No. MB 122



**CAPITA REGISTRARS,
Proxy Department,
P. O. Box 25,
BECKENHAM,
KENT,
BR3 4BR.**

FIRST FOLD

THIRD FOLD; TUCK IN

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