



Fonebak plc

Annual Report & Accounts 30 June 2007

Turning around technology



Fonebak is the leading provider of outsourcing services including the repair, remarketing and recycling of consumer and commercial-based technology products.

Fonebak was launched in the UK in 2002 as the world's first mobile phone reuse and recycling solution endorsed by every network operator and the government. Since then, the company has grown significantly and acquired the leading mobile phone and IT repair specialist, CRC; and Intec Distribution, a leading provider of mobile phones.

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"The Group is now in much better shape. The recovery plan for Fonebak is progressing well and trading at CRC is ahead of our expectations. We now have a platform from which we can start to realise the full benefits of the CRC acquisition and move the combined business forward."

"I would also like to welcome Jeff Hewitt to the Board. He has considerable relevant public company experience, which will prove invaluable to the future development of the Group."

Gary Stokes

Chief Executive of Fonebak plc
26 September 2007

Business highlights

- Recovery plan for Fonebak is progressing well establishing the foundations from which the enlarged group can trade profitably in all of its key markets
- CRC acquisition is performing ahead of management expectations and is reporting an underlying operating profit (before amortisation, exceptional items and FRS 20 adjustments) of £1.9 million for the five months post acquisition
- Jeff Hewitt is confirmed as new Non-Executive Chairman
- Banking facilities are in place to support recovery programme
- New contract wins in 2007 will add £10 million to revenues on an annualised basis
- Group revenues increased by 59% to £96.1 million, an underlying increase of 9.4%
- Underlying operating losses of £0.3 million (2006: profit £3.7 million) before impairment and restructuring costs totalling £8.6 million
- Net cash inflow of £8.3 million, generated from operating activities
- Total net borrowings reduced to £10.9 million
- Current year has started well and the benefits of restructuring are starting to come through.

We are privileged to work with and for many of the world's leading brands.

Some of our clients



acer®

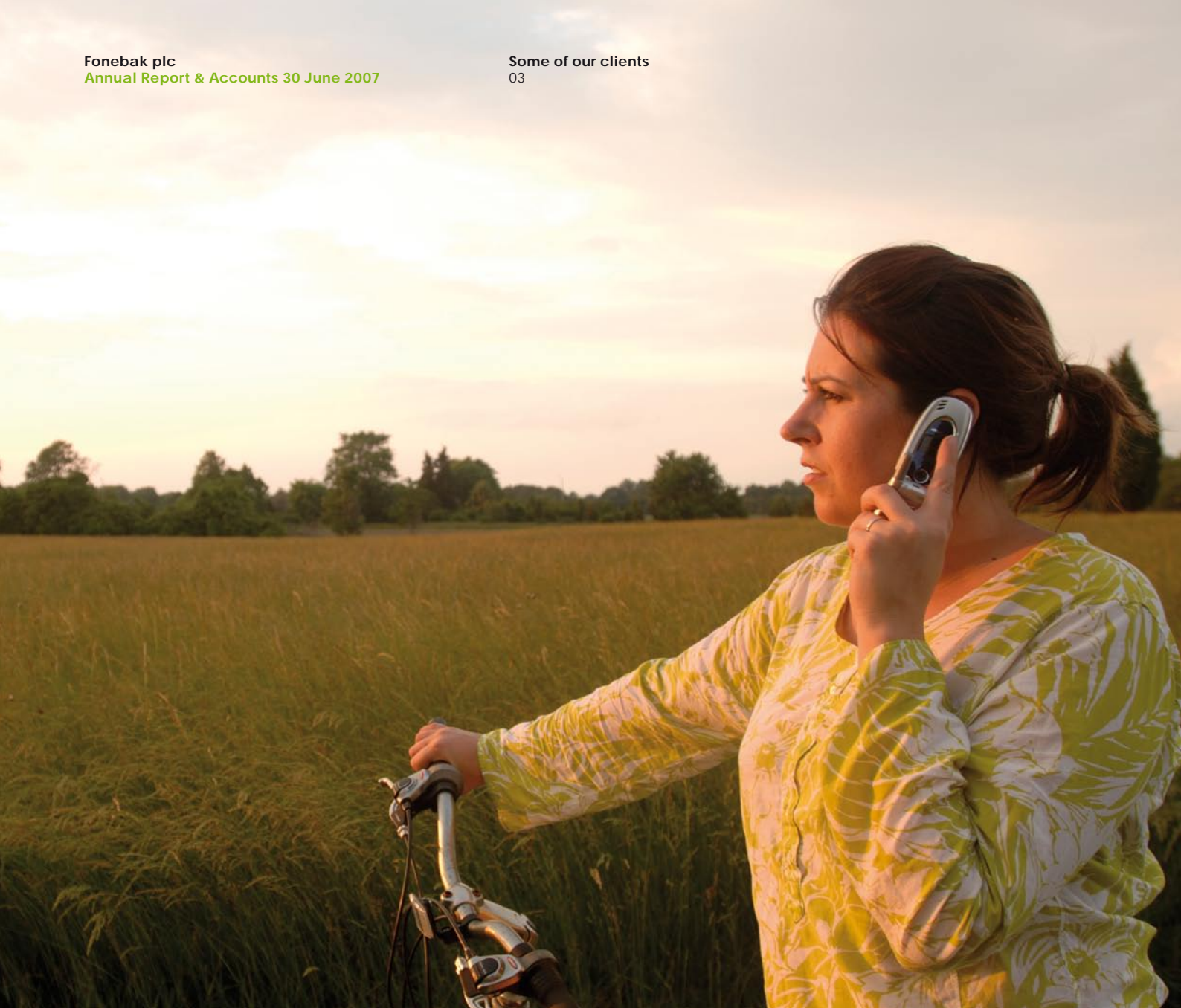
Apple
Authorised
Service Provider

TomTom®

O₂

NAVMAN

DIEBOLD®



**WINCOR
NIXDORF**

HITACHI

THALES

TOSHIBA



T-Mobile

NOKIA
Connecting People



SIEMENS



EPSON
EXCEED YOUR VISION

Chief Executive's statement



I am pleased to be reporting the first set of full year results since the appointment of the new executive team. Along with David Kelham, Chief Financial Officer, I joined the Group earlier this year from CRC where I was Chief Executive from 2006, together putting in place that company's successful recovery plan.

Overall the performance of the Group in the second half of the year has been mixed. As previously announced Fonebak endured a difficult start to 2007, however I can report that the recovery plan outlined in the latest trading statement in June is progressing well. In addition, the CRC business continues to make solid progress with trading to 30 June 2007 ahead of expectations.

For the 12 months ended 30 June 2007 the Group achieved sales of £96.1 million against £60.4 million in the previous year. This increase in revenues includes £26.1 million as a result of the acquisition, completed in January 2007,

of CRC Group PLC. A further £4.0 million arises from the Stoke based mobile phone repair operation, acquired from DSGi in September 2006. On a like-for-like basis overall sales grew by 9.4% excluding these acquisitions.

Over the year the volume of phones processed by Fonebak increased by 18.8% to over 3.6 million handsets. As previously reported the fall in the average price realised per handset has contributed to a marked decline in the margins achieved within the Fonebak operations.

In aggregate the Group achieved a gross profit £0.7 million below 2006 at £6.3 million. Included in gross profit is a £4.7 million contribution from businesses acquired during the year, of which CRC accounts for £4.5 million. Therefore, in real terms, the decrease in margin resulted in a fall in gross profit from the Fonebak business of £5.4 million year-on-year.

Responsible solutions

"Over the year the volume of phones processed by Fonebak increased by 18.8% to over 3.6 million handsets."

This decline is partially explained by additional provisions taken against the carrying value of inventories, which totalled £2.3 million for the year. In March this year Fonebak also advised of the loss of a significant contract, the full year profits have been adversely impacted by a further £2.1 million.

Given these issues the Group as a whole is reporting an underlying operating loss (before amortisation, exceptional items and share based payments) of £0.3 million for the year (2006: underlying operating profit £3.7 million). The reported loss includes a contribution from CRC of £1.9 million for the five months post acquisition. For the 12 months ended 31 December 2006 the continuing CRC operations acquired by the Group reported an equivalent operating profit of £2.6 million.

In addition exceptional charges totalling £3.1 million have been incurred in relation to the implementation costs of the recovery plan. A further £5.5 million charge has been made to reflect the impairment of the carrying value of goodwill arising from the losses and restructuring in the Fonebak businesses. Taken together these additional charges increase the loss before tax to £11.0 million (2006: profit before tax £1.6 million).

Basic losses per share for the year were 47.32p per share compared to a profit of 3.31p per share in 2006. On an adjusted basis the basic loss was 5.90p per share (2006: profit 11.10p per share).

Given the extent of the losses the Board will not be recommending the payment of a dividend.

Recovery plan progress

Following the introduction of the new executive team in early 2007 a full operational review was instigated. The outcome of this review was announced on 6 June 2007. Of necessity much of the recovery plan has been focused on short-term actions and the elimination of loss making activities. Progress is significant and in line with our expectations.

Closure of the Stoke site is due to complete by end September 2007 and the operations at Barnet have already ceased. The exceptional closure provisions totalled £1.9 million, of which the future cash cost will be £0.4 million. The underlying operating losses incurred by both sites in 2007 totalled £1.5 million. The DSGi call centre services managed in Stoke are being transferred to Huntingdon and mobile

repair activities from both Stoke and Barnet are being supported through our Nottingham facility.

The activities in Romania have been scaled back whilst discussions continue with a number of OEMs to secure accreditation for warranty repair. Whilst costs have been reduced, the Romanian facility is dependent on Group support until more sustainable business is secured. These costs, previously running at £2 million per annum, have been more than halved at the current run rate.

Fonebak offices in Italy, Portugal and Turkey have now been closed. Work is currently under way to explore more profitable options to develop the continental markets including partnerships other than through direct ownership.

The Fonebak business is today a much smaller but better focused operation. The business primarily services the mobile networks and will, through the development of its core environmental credentials, be increasingly focusing on developing new and value-adding service offerings for its clients. Whilst there is still much to be done, without the burdens of managing multiple sites and diverse operations, Fonebak's management will be able to concentrate exclusively on profitable activities within its target market.

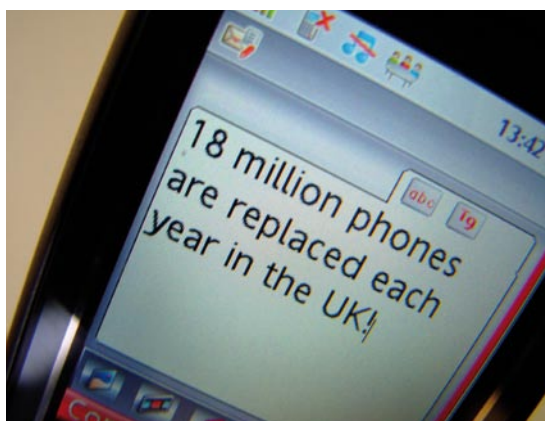
Financing

On 14 December 2006 Fonebak entered into a new loan facility with KBC Bank NV totalling £25 million and in January 2007 the Group also raised £10 million of new equity. Taken together these two amounts were used to finance the acquisition of CRC and replace existing Fonebak bank facilities.

The bank has been supportive of the new management team in its efforts to address the performance issues within the business. On 18 September 2007 negotiations were completed with the Bank, which will result in a more flexible lending structure whilst retaining the benefits of an interest rate fix for the majority of the borrowings. Total facilities available to the Group remain at £25 million; as at 30 June 2007 net borrowings were £10.9 million.

CRC

Whilst management's focus has been directed to addressing the performance issues in Fonebak, the CRC businesses acquired earlier in the year have been trading ahead of plan. CRC itself has been completing its own recovery programme following a difficult period



Chief Executive's statement continued

through 2005 and early 2006. The benefits of the actions taken are now evident in the trading performance of the continuing business.

Germany

As at 30 June the satellite repair centre in Berlin was closed, costs were in line with expectations having been fully provided for pre-acquisition. Customer contracts have been successfully transferred to the main German site at Paderborn.

Negotiations are progressing with the Paderborn unions on the restructuring of the employment conditions of the workforce. There is recognition that labour rates contracted before CRC acquired the business from Siemens in 2003 are high relative to the market and as such directly impact the competitiveness and viability of the plant. The agreed objective is to complete the negotiations before the end of the current calendar year.

In July this year a new repair centre was opened in Sömmerda, former East Germany. This project has been in negotiation for some time and is a co-location with one of our major clients in Germany, Fujitsu Siemens. The investment is supported with the commitment of a new four-year contract and the start up is progressing well. The new repair centre gives us access to a lower cost facility with which to service the 'in country' market for Germany and additional business has already been won as a result.

Poland

The facility in Warsaw has recently been restructured to improve the short-term capacity of the site. Volumes of mobile phones have been steadily increasing throughout the year; current throughput is significantly ahead of a year ago. Strong consumer demand, growing market share of our clients within Poland and increased demand from Western Europe are all contributing to our growth.

In addition, IT volumes have also been increasing, which is particularly pleasing as we only entered this market within the last year. Given the combined demand for phone and IT repair capacity, negotiations are also in progress to open a second site. This additional site will offer increased capacity as well as affording greater operational focus on the respective technologies. We are hoping to have the new site operational by early 2008.

UK

The consolidation of the UK operations was largely completed with the disposal of the Thame site earlier in the year. The three remaining service centres in Glenrothes, Nottingham and Huntingdon have all been trading profitably, albeit the Nottingham site is processing less volume as Vodafone business progressively transfers to Unipart. This programme was announced as far back as 2005 and the lost business will be partly offset by a realignment of repair volumes from Stoke, Barnet and Huntingdon. Once volumes have settled down the future scope and scale of activity for Nottingham will be clearer.

The main UK hub in Glenrothes is being expanded with the addition of another 8,000 m² of space currently coming on stream. This will facilitate the consolidation onto one site of operations at present carried out by two satellite facilities. The expansion is being supported with funding from the Scottish Executive.

At Huntingdon greater emphasis is being placed on the development of client support facilities including the expansion of the call centre capability. The transfer from Stoke of the DSGi support programme is a positive step in this direction.

The future

The Group provides a wide range of after sales support services to an impressive client list that includes many of the world's pre-eminent consumer brands. The technologies we work with are fast evolving and our role is to enhance our clients' brand and reputation through the excellence of our service. The scope of the services we currently offer are primarily based around product support either through the initial warranty period, or through subsequent out-of-warranty services including remarketing, recycling and environmental compliance.

Recognising the strength of our client list and the scope of our service capability it is clear that we now have to make a more concerted effort to integrate our businesses and present a more cohesive and value-adding front to these clients.

As part of this process the commercial activities of the Group are being pulled together under one management team. This will enable us to invest in our key account management and to develop sales expertise in each of our core technologies.

"The technologies we work with are fast evolving and our role is to enhance our clients' brand and reputation through the excellence of our service."

In a more public statement of our commitment to 'one business' the Group will be re-branded including the phasing out of the Fonebak, CRC and Intec names. The Group will therefore trade and market itself as one integrated, full-service provider. The timescale for the re-launch is targeted towards the end of 2007 and work is already well progressed.

Despite the considerable demands that the restructuring plan has placed on the Group and its people, there are many positive developments to report. Fonebak, for example, is working hard to take a more direct role in the remarketing of returned mobiles, including within the emerging economies. Fonebak already has strong connections with Africa and is currently establishing a sales office in Hong Kong to service markets in the Far East.

With so much attention focused on the environment the Fonebak business model will continue to promote its ethical and environmental policies. We see sustainability as the key issue and will promote new and differentiated services to our clients; protecting their brand and driving added value for both of us.

As part of this programme Fonebak continues to support the efforts of leading charities. The highest profile of these is Children in Need; in 2006 Fonebak raised £0.3 million for the charity and a new contract has recently been signed in support of the 2007 campaign.

Intec Distribution has traded well throughout the year and has also been successfully developing the insurance fulfilment market. We are in the process of finalising a three-year contract with the market leader, Homecare, which should be the springboard for further growth.

In addition the warranty repair businesses under CRC have recently added Navman, Thales, Daimler, Hitachi, Tyco and Pure Digital to the Group's client list. Including new contracts previously reported in 2007 such as Tom Tom, Epson and T Com, business wins are expected to exceed £10 million on a full-year basis.

From the work done already it is clear that there is an opportunity to expand the Group in a number of directions. For now though our priority is to consolidate our position with existing clients and drive more business by cross-selling our full service capability and geographical

reach. As we do this there will also be opportunities to follow our clients and support them in new markets.

Board

In the trading update communicated earlier in June it was stated that the Board was planning for the succession of Gordon Shields, the original Founder of Fonebak and current Chairman. Since that time a nominations committee has been appointed to identify and recommend a candidate of appropriate standing.

This process has recently completed, with the aid of an external agency. It has been reassuring to see that the Group, despite the short-term challenges the business has been facing, has been able to attract interest of a very high calibre.

I am pleased therefore to confirm that Jeff Hewitt will be joining the Group as Non-Executive Chairman, the appointment to become effective from 1 November 2007. Jeff has considerable experience and enjoyed a very successful career including latterly positions of Deputy Chairman and Finance Director at Electrocomponents plc until his retirement from his executive career in 2005. Previously Jeff had been Finance Director at Unitech plc and Strategy Director at Coats Viyella plc.

Currently Jeff is a Non-Executive Director at Cookson plc and External Chairman of the Audit Committee of John Lewis Partnership. In addition Jeff has non-executive roles at Whatman plc, Plasmon plc and TDG plc. Jeff's experience within the public company sector is considerable and includes recovery situations as well as exposure to the technologies and services managed by the Fonebak Group.

As originally stated Gordon will continue to work with the Group as a Non-Executive Director and will assist the executive team with the recovery and subsequent development plans for the Fonebak business.

Incentives

In recognition of the challenges presented by the recovery programme the Board has agreed, in consultation with our major institutional shareholders, to bring into effect a new share incentive scheme.

A total of 2.15 million shares were issued on 26 June 2007 at the mid-market price on the day of 55.5p. These shares are held in trust, for the benefit

Chief Executive's statement continued

of designated employees' and will vest from 1 July 2010 subject to the achievement of specific targets. These conditions include that the compound growth in earnings per share over the three years ended 30 June 2010 must exceed 5% per annum and that the mid-market value of the shares at that time are at least double the issue price.

The current share option scheme has been progressively wound down as the previous management team have left the business. There are minimal options still in issue today. As such the number of outstanding options taken together with the total number of shares held under trust are within the 10% limit authorised by shareholders.

People

During 2007 the business has seen considerable disruption and change. The Group has had to absorb both the acquisition of the larger, in headcount terms, CRC business and support the recovery programme within the original Fonebak business.

Since Fonebak and CRC came together at the end of January three sites have been closed and another considerably reduced in scale with the loss of nearly 300 jobs to date. In total the Group currently has 1,900 employees representing a reduction in total headcount of approximately 15%.

Such circumstances, married to an aggressive change programme, inevitably cause uncertainty, which in itself has a further cost to the business. It is to the great credit then of the current management and the workforce as a whole that the Group has been able to make such rapid progress. It is appropriate to acknowledge the significant contribution made by our employees in the last year and we look forward to a more stable and rewarding future.

Outlook

In the two months completed following the year-end the Group has shown good progress against the objectives set. The continuing activities are, so far, ahead of management's expectation and the Group is trading profitably in all of its key markets.

Our strong client list inevitably presents some challenges as competitive pressures within their own markets forces downward pressure on suppliers. We see some challenges in the UK and German markets and we have to recognise this as we seek to ensure we have an efficient and competitive cost base. To reduce the risk of our services becoming commoditised we also have to accelerate our commitment to developing innovative and value-adding services that leverage our broader capabilities.

To this end our new Sales Director, Martin Gossling, commenced work with us in August and is in the process of integrating our sales teams. We recognise the need to strengthen our organisation and have set aside a proportion of the savings realised in reducing costs elsewhere to fund investment in our sales and marketing capabilities. We expect that a greater number of better-focused sales specialists will benefit our sales push as we look to the future.

With our plans to integrate the Group's business activities more effectively and progress being made towards a common brand; the marketing of the combined business is entering a phase where the emphasis must shift to a more coordinated growth focus. Whilst it is too early to pronounce the turnaround complete, progress over recent months has been good and the foundations are being established from which the Group can move profitably forward.

Gary Stokes
Chief Executive Officer
26 September 2007

Chief Financial Officer's review

Introduction

On 6 March 2007 a trading statement was issued to the London Stock Exchange advising that the original Fonebak business would not achieve its expected level of profits for the year. The trading statement also advised that the CRC Group Plc business (acquired on 24 January 2007) was achieving its targets, as was the Intec Distribution business. At the end of March I was appointed CFO of Fonebak Plc and commenced a review of the performance of the businesses and the systems of Financial and Management Controls in the Group. The results of this are reported within this review and within the Corporate Governance statement.

Acquisitions, funding and restructuring

The notes to the accounts set out the impact of the acquisitions, capital raising and announced closures during the year.

In September 2006 the Group paid £0.4 million for a business acquired from DSG Retail in Stoke.

In January CRC Group Plc was acquired for 50 pence per share (£12.3 million) plus debt of £5.1 million.

Deferred consideration on the acquisition of Intec Group Ltd, completed in 2005, of £2.4 million was paid in the year.

£10 million of new equity was raised in January by the issue at £1.48 per share of 6,756,757 shares.

A new £25 million bank facility was entered into with KBC bank in December 2006. The terms of this facility were re-negotiated following the trading statements made in March and June. This re-negotiation was completed on 18 September with no increase in debt and no amendment to the original re-payment profile.

Solid potential

David Kelham
Chief Financial Officer



Chief Financial Officer's review continued

Turnover

Consolidated turnover for the Group for the year is £96.1 million compared to £60.4 million in the year to June 2006. £30.1 million of the increase comes from the CRC and Stoke acquisitions and £5.6 million came from organic growth of the original Fonebak and Intec businesses.

Gross Profit

Overall gross profit was £6.3 million (6.5%) in the year to June 2007 compared to £7.0 million (restated) (11.5%) for the year to June 2006. The restatement of 2006 is simply the inclusion of distribution costs, shown separately in 2006, now included within Cost of Sales for the current year.

The year-on-year reduction in the gross margin is a direct result of stock provisions needed in the original Fonebak business, announced with our interim results at the end of March, the loss of material contracts in the same business and a general decline in the margins earned particularly from continental sourced business.

The gross margin earned in the acquired CRC and Stoke businesses amounted to £4.7 million (15.8%).

Operating loss

An operating loss, before goodwill amortisation, exceptional items and share-based payments, of £0.3 million has been achieved compared to the reported profit of £3.7 million in the previous year. This measure, for the original Fonebak business has, including Intec, moved from a reported profit of £3.7 million in 2006 to a loss of £2.1 million in 2007 on a like for like basis.

As noted above these unacceptable losses have resulted in the announcement to close the Barnet and Stoke locations together with a full appraisal of the original Fonebak business. This has led the Board and management to discontinue certain non-profitable activities and review of the Continental European activities.

Profits from the acquired CRC and Stoke businesses in the period since their acquisition amounted to £1.8 million.

Goodwill amortisation

The goodwill amortisation charge rose from £1.3 million in 2006 to £1.6 million in 2007 following the acquisitions of CRC and Stoke.

Goodwill impairment and exceptional items

Following the significant downturn in the profitability of the original Fonebak business the Board has carried out an impairment review of all investments and carrying values. This review has been based on the Group's new 3-year plan.

The discounted cash flows of the various business streams has been calculated using a discount rate of 20%. This rate reflects, in the Board's opinion, a fair rate to evaluate the business carrying value and risk profile. An impairment on the original Fonebak business of £3.4 million, from the carrying value prior to the impairment of £14.5 million, has been charged. The carrying value of Goodwill for Stoke (£0.1 million), Barnet (£1.1 million) and Romania (£0.9 million) have been fully written off following the announcements to close Stoke and Barnet and reduce the capacity in Romania.

One off exceptional items totalling £3.1 million have been charged reflecting closure and restructuring provisions for Barnet, Stoke and Romania of £2.1 million, costs associated with the refinancing and turnaround plan of £0.8 million and exceptional write offs of previously capitalised IT and building costs of £0.2 million.

Financing costs and funding

The Financing structure of the Group has changed significantly during the year. Loans of £4.3 million, net of cash balances, were taken over as part of the CRC acquisition. A £25 million bank facility with KBC bank was taken out at the time of the CRC acquisition. This was broken down into a £17.5 million term loan, repayable over five years, on a straight-line basis and a £7.5 million revolving credit facility (RCF). Of this £7.5 million RCF, £2 million has been drawn in cash with £5 million being used to secure guarantees to Fonebak and CRC clearing banks. £0.5 million remains undrawn.

£10 million of new equity was raised in January at £1.48 per share. In addition to the CRC acquired loan, the loans in place at 30 June 2006 of £5.1 million were repaid.

Net Finance costs of £0.7 million have been charged to the P&L in the year. The term loan has been matched by an interest rate swap in order to hedge against interest rate movements. The details of this swap arrangement are set out in the notes to the accounts but the effect is to fix Libor on this loan at 5.5225%.

"Consolidated turnover for the Group for the year is £96.1 million compared to £60.4 million in the year to June 2006."

Taxation

A tax credit of £0.6 million is included in the Consolidated Profit and Loss Account. This represents an effective rate of 6% on the losses for the year. The non deductibility of the amortisation of goodwill, impairment of carrying value of intangible assets and certain disallowable costs explain this rate.

Dividends

The Board announced with the 2006 accounts a proposal to pay a dividend of £192,000 (equivalent of 1p per share). This was paid in December 2006. No dividend is proposed in respect of the year-end of 30 June 2007.

Earnings per share

The basic loss per share before goodwill amortisation and exceptional items, on the weighted average number of shares in issue during the year, was 5.90 pence per share and was a profit per share of 11.10 pence in 2006.

The basic loss per share after amortisation and exceptional items was 47.32 pence compared to a profit per share of 3.31 pence in 2006.

Cash flow

Cash flow from operating activities was an inflow of £8.3 million. The overall increase in net borrowings, after acquiring the CRC and Stoke businesses and paying the deferred consideration on the Intec acquisition of the previous year, was £6.8 million.

Balance sheet

Intangible assets

The principal changes in the intangible assets relates to the acquisition of CRC and Stoke, the impairments taken against the carrying value of Goodwill on the original Fonebak acquisition, the Intec Cellular acquisition and the Romania acquisition, and the amortisation charged in the year. In total CRC generated £13.2 million of Goodwill at the time of the acquisition on 24 January and Stoke generated £0.1 million.

Tangible assets

The increase in tangible assets relates mainly to the acquisition of CRC.

Stocks

Stocks at 30 June 2007 were £6.1 million compared to £7.9 million at 30 June 2006. £3.4 million of the June 2007 figure is held in the CRC businesses. As stated in our interim results released in March a provision was taken against operating profit of £2.0 million in the first half to reflect the age profile of the original Fonebak

stocks, an additional £0.3 million has been booked against this stock in the second half of the year.

Debtors

Debtors and prepayments excluding tax balances at 30 June 2007 were £17.6 million compared to £6.6 million in 2006. CRC contributed £12.2 million of this increase with debtor days of approximately 60 days.

Creditors due within one year

Creditors due within one year excluding bank debt and tax balances were £27.2 million compared to £13.8 million in 2006. CRC contributes £13.1 million of this increase with trade creditor days of approximately 50 days.

Creditors due after one year

The creditors over one year relate entirely to the Bank term loan referred to above with payments of £1.75 million due on 30 September and 31 March each year. The balance of £14 million covers payments due between September 2008 and March 2012.

Employee benefit trust

Details of our new employee benefit trust which was set up in June 2007 with the issuing of 2,150,000 shares at 55.5 pence per share are included within the Directors' Report on page 15.

Post Balance Sheet Events

Note 34 to the accounts sets out the re-negotiation of the KBC Bank Facility completed on 18 September 2007.

International Financial Reporting Standards ('IFRS')

As an AIM listed company we will report for the first time under IFRS for our interim accounts for the six months to 31 December 2007. The Board expects to make a statement on the impacts of IFRS before releasing its interim accounts. At this stage it is clear there is no material impact on operating profit before amortisation and cash flows.

David Kelham
Chief Financial Officer

26 September 2007

Board of Directors

Gordon Shields Chairman

Gordon Shields founded Fonebak in 2000 as a business unit of Shields Environmental. He founded Shields Environmental in 1979 and quickly adopted the challenge of making environmental excellence a part of everyday business.

Gordon has since received continual recognition for his 25 years of experience in developing cutting edge of environmental management capabilities and other aspects of Corporate Responsibility.

Gordon sits on the Leadership Board of Business in the Community's (BITC) Environment Division, a position he has held since 1996. In addition, Gordon was invited by the UK's Environment Minister to serve on a steering group that assisted the UK Government in meeting its recycling and landfill diversion targets. More recently, he was appointed to a UK Government Business Task Force on Sustainability. Gordon is also a Fellow of the Royal Society of Arts (RSA) for his contribution to the Environment. He has also contributed to the efforts of the United Nations Environmental Programme.

Gordon will step down as Chairman on 1 November 2007, but will continue to serve as a Non-Executive Director.

David Holland Independent Non-Executive Director

David Holland was appointed Non-Executive Director of Fonebak prior to the AIM listing in 2005. He is a Fellow of both the Chartered Institute of Management Accountants and the Institute of Printing, and is Chairman of Fonebak's Audit Committee.

David has over 40 years' industrial experience of which 30 years have been at Board level predominantly in the printing and publishing sectors where he has had profit responsibility for over 50 individual companies.

He is currently Chief Executive of the Goodhead Group plc and its subsidiaries. Prior to this he was a Main Board Director of The Polestar Group the largest independent printing company in Europe where he was also Chairman of the Corporate Trustee Company with assets of over £400 million.

Additionally he is Chairman of Trustees for the Council for Administration, the foremost standard setting body for business and administration in the UK, which is a registered charity limited by guarantee.

David is also a Freeman of the City of London.

Gary Stokes
Chief Executive Officer

Gary Stokes was appointed Chief Executive Officer of Fonebak in January 2007 following the acquisition of CRC Group plc. Gary had previously served CRC as Chief Executive Officer having joined the business in April 2006.

Prior to CRC, Gary had led the Materials Handling Division of LINPAC since 2001 and was one of the management team that led the £860 million buyout of the Group in 2003.

As a qualified ACA, Gary was Finance Director at both Atkins plc and Tomkinsons plc before a move into general management in 1997 as managing director of the retail operation for Gaskell plc.

David Kelham
Chief Financial Officer

David Kelham is Fonebak's Chief Financial Officer. He joined Fonebak at the end of March 2007 after the Company acquired CRC Group where he held the position of Chief Financial Officer since June of 2006. David has had a senior finance career spanning over 25 years mainly in blue chip companies.

David joined the team from Courts International Retailers where he held an interim role as Group Finance Director working for the Administrators of Courts Plc. Prior to joining Courts, David spent five years at NTL in senior financial positions seeing the Company grow from 120,000 customers when he joined to 3 million when he left in 2002. During that time David was heavily involved in many acquisitions and the integration of businesses across the UK and Ireland.

Prior to joining NTL, David was Finance Director at P&O European Ferries where he spent 11 years overseeing its growth to deliver pre-tax profits of over £100 million.

Jeff Hewitt
Non-Executive Chairman from 1 November 2007

Jeff Hewitt will be joining the Group as Non-Executive Chairman, the appointment to become effective from 1 November 2007. Jeff has considerable experience and enjoyed a very successful career including latterly positions of Deputy Chairman and Finance Director at Electrocomponents plc until his retirement from his executive career in 2005. Previously Jeff had been Finance Director at Unitech plc and Strategy Director at Coats Viyella plc.

Currently Jeff is a Non-Executive Director at Cookson plc and External Chairman of the audit committee of John Lewis Partnership. In addition Jeff has non-executive roles in listed companies at Whatman plc, Plasmon plc and TDG plc. Jeff's experience within the public company sector is considerable and includes recovery situations as well as exposure to the technologies and services managed by the Fonebak Group.

Director's report

The Directors present their report together with the audited financial statements for the year ended 30th June 2007.

Principal activities

The principal activities of the Group are provision of outsourcing services including the repair, remarketing and recycling of consumer and commercial-based technology products.

Business review and future development

A review of the business during the year and of its future development and prospects is set out in the Chief Executive's Statement and the Chief Financial Officer's Review and are incorporated into this report by reference.

Having successfully come through a period of turnaround since March 2007 the Directors believe the principal financial risk is the execution of the agreed plans. To date implementation is in line with expectation.

Results for the year

The results for the year are set out in the consolidated profit and loss account on page 26.

The Group's loss after tax, amortisation, impairment, exceptional items and share-based payments was £10.4m, compared with a reported profit in 2006 of £0.6m (re-stated due to share-based payment adjustment). No dividend is recommended.

Subsequent events

On 18th September 2007 the Group concluded its discussions with its bank following the trading statements issued in March and June 2007. The Group is pleased to confirm that no additional funding is necessary either from the banks or the shareholders. Previously contracted repayments to KBC bank under the term loan taken in February 2007 will not be amended. New covenants are in place with only minor changes to those agreed in February 2007.

Directors

The Directors who served during the year were as follows:

Gordon Shields

David Holland

Gary Stokes – appointed 24th January 2007

David Kelham – appointed 21st March 2007

Arthur Crocker – resigned 30th March 2007

Stephen Shields – resigned 30th June 2007

Directors' interests

Details of Directors' interests in the shares and share options of the company are contained in the remuneration report on pages 23-24.

Supplier payment policy

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group seeks to treat all suppliers fairly, but it does not have a Group-wide standard or code of practice which deals specifically with payment to suppliers. The creditor payment period in the CRC companies was just under 50 days at 30th June 2007, (30th June 2006 46 days). In the "Fonebak" companies the creditor payment period based on actual invoices received was 10 days (2006: 20 days).

Charitable and political donations

The Group made no direct charitable donations during the year. However certain clients direct the Group to pay their entitlement under commercial arrangements to various charities on their behalf. The Fonebak Company also took part in the UK BBC Children in

Director's report

Need Appeal and made a payment to this charity from this appeal of £320,000, for the 2006 campaign. No political donations were made during the year.

Employees

The Group keeps its employees informed of matters affecting them as employees through regular team briefings throughout the year. Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retain them in order that their employment with the Group may continue. It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

Resolutions to be proposed at Annual General Meeting on 21st December 2007

Authority to allot shares

The Companies Act 1985 provides that directors shall only allot unissued shares with the authority of shareholders in general meeting. Resolution 8 will be proposed as an Ordinary Resolution for the renewal of the Directors' general authority to issue relevant securities up to an aggregate nominal amount of £188,950 (being 9,447,500 Ordinary Shares), representing approximately 33.3% of the current issued share capital of the company. The authority sought will be in substitution for the previous authority taken, and this authority will expire at the conclusion of the next AGM. The Directors have no present intention of exercising this authority other than in respect of shares which may be issued pursuant to the Company's share option schemes.

Disapplication of pre-emption rights

The Companies Act 1985 also provides that any allotment of new shares for cash must be made pro rata to individual shareholders' holdings, unless such provisions are disapplied under section 95 of the Companies Act 1985. Resolution 9 will be proposed as a special resolution for the renewal of the Directors' authority to allot equity securities for cash, without first offering them to shareholders pro rata to their holdings. This authority facilitates issues made by way of rights open offer or other pre-emptive offer to shareholders and other persons entitled to participate to shareholders and authorises other allotments of up to a maximum aggregate nominal amount of £28,342 of shares, representing approximately 5% of the current issued share capital of the Company. The Directors have no present intention of exercising this authority.

Purchase of own shares

Resolution 10 will be proposed as a special resolution for the renewal of the company's authority to purchase its own shares in the market for up to 2,834,257 Ordinary Shares, representing approximately 10% of the issued share capital of the company. The price payable shall not be more than 105% above the average price of the middle market quotation as derived from the Daily Official List of London Stock Exchange plc for the Ordinary Shares for the five business days before the purchase is made and in any event not less than 2p per share, being the nominal value of the shares. It is the Directors' intention only to exercise the authority to purchase the company's shares where it would increase the earnings per share of those Ordinary Shares that are not re-purchased. This power will only be used if the Directors consider that to do so would be in the best interests of shareholders generally.

Employee Benefit Trust

On 21st June 2007 the Company set up an Employee Benefit Trust ("EBT") and formed a subsidiary company, Fonebak Trustees Limited, to administer the EBT ("the Trustee"). The Company agreed to make a loan of £1,193,250 to the Trustee to enable the Trustee to subscribe for 2,150,000 ordinary shares of 2p each in the issued share capital of the Company at a price of 55.5 pence per share ("the Subscription Shares") in order that the Trustee could make awards over interests in the Subscription Shares to certain Directors and employees of the Company under a new Executive Share Plan ("the Executive Plan") approved by the Board on 26th June 2007. The following Directors were invited to participate in the Executive Plan ("the Awards") on 26th June 2007:

Director's report

Name	Number of Shares over which interests to be held	Exercise price
G.Stokes	750,000	55.5 pence
D.W.Kelham	500,000	55.5 pence

The exercise price is set by reference to the market price of the shares on the date of the award. The Board agreed to make these awards subject to the following performance criteria:

Immediately following the announcement of the Company's results for the period ending 30th June 2010

- Real annual growth in earnings per share for the Company, measured over a three year period from 1st July 2007 until 30 June 2010 is equal to or in excess of 5%; and
- The market value of an ordinary share in the Company (as derived from AIM) is no less than twice the market value of an ordinary share on 30th June 2007

The Executive Plan also contains certain earlier vesting provisions where the participant leaves the Company for reasons of ill health or early retirement or there is a change of control.

Share Capital

The shares in issue in the Group have increased from 19,199,995 at 30th June 2006 to 28,342,577 at 30th June 2007. This increase has arisen as a result of the 6,756,757 shares issued in January at £1.48 to help fund the CRC acquisition and repay existing Fonebak debt, the exercising, prior to his leaving, of 235,825 options previously granted to the former Finance Director and the issue of the 2,150,000 shares to the EBT.

Key Performance Indicators

Cash Flow

Since the appointment of the new executive management team particular emphasis has been placed on cash flow management and control. Rolling detailed 13-week cashflow forecasts are produced for all parts of the business and reviewed in detail by the executive directors and by the board at its monthly meetings.

Business Stream Profitability

The Group has now been structured within the two segments and the performance is monitored each week against agreed targets. This monitoring covers not only the achievement of financial targets but also customer service measures.

Environmental Compliance

As an approved producer compliance scheme the Fonebak business allows its members to be assured of their compliance to WEEE regulations in place across Europe.

Director's report

Substantial Shareholdings

	26th September 2007	Percent	26th September 2006	Percent
Gordon Sydney Shields	3,075,000	10.85	1,800,000	9.38
Morley Fund Management	2,929,725	10.34	2,257,397	11.76
Fidelity Investments	2,594,676	9.15	1,919,000	9.99
Societe Generale Asset Management	2,521,158	8.90	-	-
Fonebak Plc Employee Benefit Trust	2,150,000	7.59	-	-
Impax Asset Management	1,741,514	6.14	224,000	1.17
Invesco Asset Management	1,540,038	5.43	802,200	4.18
Dexia Banque Internationale A Luxembourg	1,009,000	3.56	63,000	0.33
AXA Framlington Investment Management	857,100	3.02	777,100	4.05
S A Shields	743,582	2.62	743,582	3.87
Rathbone Investment Management	241,478	0.85	1,459,345	7.60
	19,403,271	68.45	10,045,624	52.32
Others	8,939,306	31.55	9,154,371	47.68
TOTAL	28,342,577	100.00	19,199,995	100.00

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

In accordance with normal practice, the Directors will be authorised to determine the auditors' remuneration.

By order of the board

David Kelham

Chief Financial Officer
26th September 2007

Fonebak Plc

Corporate governance

Principles of good governance

As a Company quoted on AIM, a market operated by the London Stock Exchange, we are not required to comply with Section 1 of the Combined Code on Corporate Governance ("the Combined Code"). However, the Group has complied with those provisions of the Combined Code that the Board considers to be relevant for the Group as set out below, and will enhance its procedures during 2007-2008 in the areas that it considers most appropriate. The appointment of a further independent Non-Executive Director, Jeff Hewitt, as Chairman on 1st November 2007 is considered by the Board to be an important development in re-enforcing good corporate governance practices for the future.

The Board

The specific responsibilities reserved to the Board include: setting Group strategy and approving an annual budget and medium-term projections; reviewing operational and financial performances; approving major acquisitions, divestments and capital expenditure; reviewing the Group's systems of financial control; reviewing the environmental, health and safety performance of the Group; approving appointments to the Board and the Company Secretary; approving policies proposed by the Remuneration Committee relating to Director's remuneration and the severance of Director's contracts; and ensuring that a satisfactory dialogue takes place with shareholders. The Board intends to hold a minimum of 10 Board meetings per annum and will meet more often as required.

The roles of the Chairman and Chief Executive

The division of responsibilities between the Chairman of the Board and the Chief Executive will be re-defined in 2007-2008 following Jeff Hewitt's appointment in order to establish clearly the respective roles and enhance corporate governance standards.

Directors and Directors' independence

At the date of this Annual Report the Board comprises the Chairman, an independent Non-Executive Director and two Executive Directors. On 1st November 2007, Jeff Hewitt joins the Board as a second independent Non-Executive Director and Chairman. The names of the Directors together with their biographical details are set out on pages 12-13. David Holland was the senior independent Director during the year.

The Directors are given access to independent professional advice, at the Group's expense, when the Directors deem it necessary in order for them to carry out their responsibilities.

Professional development

Following the appointment of Jeff Hewitt new procedures will be introduced to advise Directors of their duties and obligations as a Director of a listed Company and to ensure they are regularly updated by the executive Directors of the Group's business and other matters relevant to their appointment.

The Company Secretary

The Company Secretary is responsible for advising the Board through the Chairman on all governance matters. The Directors have access to the advice and services of the Company Secretary. The company's Articles of Association and the matters reserved to the Board for decision provide that the appointment and removal of the Company Secretary is a matter for the full Board.

Information

Regular reports and papers are circulated to the Directors in a timely manner in preparation for Board meetings. These papers are supplemented by information specifically requested by the Directors from time to time. The Non-Executive Directors receive monthly management accounts and regular management reports and information

Corporate governance

that enables them to scrutinise the Group's and management's performance against agreed objectives.

Relations with shareholders

The Annual General Meeting will be attended by all Directors, and shareholders are invited to ask questions during the meeting and to meet with Directors after the formal proceedings have ended.

The Group maintains a corporate website (www.fonebak.com), which has recently been updated to comply with AIM Rules and contains a range of information of interest to institutional and private investors. The Group has regular discussions with institutional shareholders on a range of issues affecting its performance. These include meetings following the announcement of the annual results with the Group's largest institutional shareholders on an individual basis. In addition, the Group responds to individual ad hoc requests for discussion from shareholders.

Internal control

The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investments and the Group's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material mis-statement or loss. A new Group Chief Accountant is being appointed on 1st November 2007 and this role includes responsibility for internal audit.

Fonebak is committed to conducting its business responsibly and in accordance with all laws and regulations to which its business activities are subject and intends to formulate a policy document setting out the procedures available to employees to report potential violations of the commitments.

Board committees

The number of full Board meetings and Committee meetings attended by each Director during the year was as follows:

	Board Meeting	Remuneration Committee	Audit Committee
GS Shields	13 (15)	2	2
DA Holland	12 (15)	2	2
G Stokes	9 (9)	-	-
S A Shields	13 (15)	-	-
DW Kelham	5 (5)	-	-
AR Crocker	11 (11)	-	2

Figures in brackets indicate maximum number of board meetings in the year in which the individual was a Board member.

Nomination Committee

A Nomination Committee was set up on 31st August 2007.

Remuneration Committee

During the year the Remuneration Committee comprised Gordon Shields and David Holland. Gordon Shields acts as Chairman of the Committee. The Remuneration Committee met twice (2006 – twice) during the year to 30 June 2007.

The Committee's principal responsibilities are:

- Setting, reviewing and recommending to the Board for approving individual remuneration packages for executive directors, including terms and conditions of employment and any changes to the packages; and

Corporate governance

- Approving the rules, and launch, of any executive share, share option or cash based incentive scheme and the grant, award, allocation or issue of share, share options or payments under such scheme.

The Audit Committee

During the year the Audit Committee comprised David Holland and Gordon Shields. David Holland acted as Chairman of the Committee. The Audit Committee met twice (2006 – 5 times) during the year to 30 June 2007.

Under its terms of reference, the Audit Committee monitors the integrity of the Group's financial statements and any formal announcements relating to the Group's performance. The Committee is responsible for monitoring the effectiveness of the external audit process and making recommendations to the Board for ensuring that an appropriate relationship between the Group and the external auditors is maintained, including reviewing non-audit services and fees. It will also keep under review the Group's systems of internal control and the processes for monitoring and evaluating the risks facing the Group. The Committee meets with executive directors and management, as well as privately with the external auditors.

In 2007 the following responsibilities of the Audit Committee were discharged by the Board as a whole:

- Reviewing the Group's financial statements for the year ended 30th June 2007;
- Reviewing and approving the audit fee and non-audit fees payable to the Group's auditors;
- Reviewing the external auditor's plan and audit of the Group's financial statements, which included scope of work, key risks to the financial statements, confirmation of auditor independence and approving the terms of engagement for the audit;
- Reviewing the performance of the external auditors.

Auditors' independence and objectivity

The Audit Committee reviews all services being provided by the external auditors so as to review the independence and objectivity of the external auditors, taking into consideration relevant professional and regulatory requirements, so that these are not impaired by the provision of permissible non-audit services.

Details of the amounts paid to the external auditors during the year for audit and other services are set out in note 5 to the financial statements.

Going concern

After making enquiries and following the renegotiation of the Group's borrowing facilities, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities in respect of the Directors' report and the financial statements

The Directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that period.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect 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 UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Environmental policy statement

The Environmental Policy Statement is as follows:

Protection of the environment is central to our business strategy. Accordingly, we have developed an Environmental Management System that is certificated to ISO14001 and registered with EMAS, the European Eco-Management and Audit Scheme. Our system has been incorporated into all original Fonebak company operations to ensure that we:

- Provide a fully auditable and sustainable solution that enables whole life cycle management for telecommunications equipment through re-use and recycling, husbanding the world's resources, eliminating landfill and protecting the environment
- Manage and minimise environmental risks identified in our processing operations, and support service activities performed at client sites
- Maintain our 100% regulatory compliance record
- Measure and publicly report our environmental performance annually
- Assess the environmental performance of key suppliers, and co-operate with suppliers, customers and business partners to achieve higher environmental standards
- Encourage sustainable development through business example and voluntary endeavours, both nationally and within the local community
- Minimize the impact on the environment of our operations as related to the emissions of Green House Gases (CO₂) to help combat climate change

We shall distribute a copy of this policy to all employees, and to other organisations and the public upon request.

We shall periodically audit our operations for compliance with this policy, and measure progress made in our quest for continuous environmental improvement.

Remuneration report

Remuneration Committee

The Remuneration Committee currently comprises the two Non Executive Directors, Gordon Shields (Chairman) and David Holland. The Committee reviews and makes recommendations to the Board on the terms and conditions under which the Executive Directors are employed. The Executive Directors determine the remuneration of the Non-Executive Directors.

Remuneration Policy

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

- Attract and retain the high quality executives by paying competitive remuneration packages relevant to each director's role, experience and the external market. The packages include employment related benefits incorporating contributions to defined contribution private pension plans, company cars or car allowances and private medical insurance; and
- Incentivise directors to maximise shareholder value through performance related bonus schemes and share options.

Basic salaries are set by the Remuneration Committee on an annual basis after taking into consideration the performance of the individuals, their levels of responsibility and rate of salary for similar positions in comparator companies.

Performance related bonuses for the Executive Directors are contractual. These arrangements are based on the recommendations of the Remuneration Committee and are linked to the achievement of operating profits.

The Non-Executive Directors receive fees set at a level commensurate with their experience and ability to make a contribution to the Group's affairs.

Service Agreements

None of the Directors have contracts of service with notice periods which exceed 12 months.

Details of Directors' emoluments and share options given below forms part of the financial statements.

Directors' emoluments

The Directors' emoluments for the year, up to date of resignation or from date of appointment are shown below:

	Salaries, Fees and Benefits 2007 £'000	Bonus 2007 £'000	Year ended		Pension Contribution	
			30 th June 2007 £'000	30 th June 2006 £'000	30 th June 2007 £'000	30 th June 2006 £'000
Executives						
Gary Stokes – appointed 24 th January 2007	116	45	161	-	15	-
David Kelham – appointed 21 st March 2007	48	35	83	-	6	-
Arthur Crocker – resigned 31 st March 2007	105	59	164	177	24	19
Stephen Shields – resigned 30 th June 2007	110	70	180	231	-	-
Kathy Woodward – resigned 27 th June 2006	-	-	-	170	-	10
Non Executives						
Gordon Shields	50	-	50	50	-	-
David Holland	28	-	28	25	-	-
Total	457	209	666	653	45	29

Remuneration report

Directors' share options

The Directors held the following interests in share options during the year:

	Date of Grant	At 1 st July 2006	Granted	Exercised	Lapsed	At 30 th June 2007	Exercise Price	Exercise Period - from
Executives								
Gary Stokes	26.06.2007	-	750,000	-	-	750,000	£0.555	30.06.2010
David Kelham	26.06.2007	-	500,000	-	-	500,000	£0.555	30.06.2010
Arthur Crocker	15.11.2004	235,825	-	(235,825)	-	-	£0.020	-
Stephen Shields	23.03.2005	384,000	-	-	(384,000)	-	-	-
Kathy Woodward	23.03.2005	480,000	-	-	(480,000)	-	-	-
Non Executives								
Gordon Shields		-	-	-	-	-	-	-
David Holland		-	-	-	-	-	-	-

Directors' interests in shares

The number of ordinary shares of 2 pence each in the company held by Directors, or former Directors at 30th June 2007 and at 30th June 2006 were as follows:

	30 th June 2007		30 th June 2006	
	Number	% of Total	Number	% of Total
Executives				
Gary Stokes	25,000	0.09	-	0.00
David Kelham	10,000	0.04	-	0.00
Arthur Crocker	617,432	2.18	381,607	1.99
Stephen Shields	743,582	2.62	743,582	3.87
Kathy Woodward	-	0.00	771,791	4.02
Non Executives				
Gordon Shields	3,075,000	10.85	1,800,000	9.38
David Holland	-	0.00	-	0.00

The 235,825 options granted to Arthur Crocker on 15th November 2004 were before amendments to the EMI plan on 7th March 2005, and were not subject to performance criteria.

All Directors shares are beneficially held.

The market price of the Fonebak plc ordinary shares at 30 June 2007 was 55.5 pence per share. The highest and lowest share prices during the year were 164.5 pence and 55.5 pence respectively.

Gordon Shields

Chairman of the Remuneration Committee
26th September 2007

Independent Auditors' Report

Independent Auditors' Report to the members of Fonebak plc

We have audited the Group and parent company financial statements (the "financial statements") of Fonebak plc for the year ended 30 June 2007 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the reconciliations of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 21.

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. The information in the Directors' Report includes that specific information presented in the Chief Executive's Statement and the Chief Financial Officer's Review that is cross-referenced from the Business Review Section of the Directors' Report.

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 the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

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 judgments 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 UK Generally Accepted Accounting Practice, of the state of the Group's and the parent company's affairs as at 30 June 2007 and of the Group's loss for the year then ended;
- the financial statements 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.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

26th September 2007
2 Cornwall Street
Birmingham
B3 2DL

Consolidated profit and loss account
for the year ended 30 June 2007

	Note	2007 Acquisitions	2007 Ongoing activities	2007 Total	2006 Total (as restated)
		£'000	£'000	£'000	£'000
Turnover	1	30,081	66,049	96,130	60,361
Cost of sales		(25,342)	(64,517)	(89,859)	(53,389)
Gross profit		4,739	1,532	6,271	6,972
Administrative expenses		(3,640)	(13,014)	(16,654)	(4,753)
Operating profit/(loss) before goodwill, amortisation, exceptional items and share based payments	1	1,786	(2,110)	(324)	3,747
Amortisation of goodwill	3	(304)	(1,277)	(1,581)	(1,274)
Exceptional goodwill impairment	3	-	(5,469)	(5,469)	-
Exceptional costs	3	(383)	(2,750)	(3,133)	(130)
Share based payments	3	-	124	124	(124)
Operating profit/(loss)	1	1,099	(11,482)	(10,383)	2,219
Net interest payable	4			(646)	(600)
(Loss)/profit on ordinary activities before taxation				(11,029)	1,619
Tax on (loss)/profit on ordinary activities	7			611	(984)
(Loss)/profit on ordinary activities after taxation for the financial year				(10,418)	635
(Loss)/earnings per ordinary share					
Basic	8			(47.32)p	3.31p
Diluted	8			(46.83)p	3.24p
Underlying (loss)/earnings per ordinary share					
Basic	8			(5.90)p	11.10p
Diluted	8			(5.84)p	10.87p

All activities relate to continuing operations.

Details of acquisitions and exceptional items are set out in notes 2 and 3 respectively.

Consolidated balance sheet as at 30 June 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Fixed assets					
Intangible assets	11		25,350		19,120
Tangible assets	12		2,667		728
			<hr/>		<hr/>
			28,017		19,848
Current assets					
Stock	14	6,079		7,879	
Debtors	15	18,938		6,570	
Cash at bank and in hand		9,072		1,137	
		<hr/>		<hr/>	
		34,089		15,586	
Creditors:					
Amounts falling due within one year	17	(33,574)		(15,631)	
		<hr/>		<hr/>	
Net current assets/(liabilities)			515		(45)
			<hr/>		<hr/>
Total assets less current liabilities			28,532		19,803
Creditors:					
Amounts falling due after more than one year	18		(14,000)		(3,754)
			<hr/>		<hr/>
Net assets			14,532		16,049
			<hr/> <hr/>		<hr/> <hr/>
Capital and reserves					
Called up share capital	24		566		384
Share premium account	26		25,304		15,076
Profit and loss account	26		(11,338)		589
			<hr/>		<hr/>
Equity shareholders' funds			14,532		16,049
			<hr/> <hr/>		<hr/> <hr/>

These financial statements set out on page 26-53 were approved by the Board of Directors on 26th September 2007 and were signed on its behalf by:

Gary Stokes
Chief Executive

David Kelham
Chief Financial Officer

Company balance sheet
as at 30 June 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Fixed assets					
Intangible assets	11		11,132		15,347
Tangible assets	12		158		213
Investments	13		16,813		5,177
			28,103		20,737
Current assets					
Stock	14	1,292		7,048	
Debtors	15	11,800		5,229	
Cash at bank and in hand		5,323		545	
		18,415		12,822	
Creditors:					
Amounts falling due within one year	17	(16,141)		(13,484)	
Net current assets/(liabilities)			2,274		(662)
Total assets less current liabilities			30,377		20,075
Creditors:					
Amounts falling due after more than one year	18		(14,000)		(3,703)
Net assets			16,377		16,372
Capital and reserves					
Called up share capital	24		566		384
Share premium account	26		25,304		15,076
Profit and loss account	26		(9,493)		912
			16,377		16,372
Equity shareholders' funds			16,377		16,372

These financial statements set out on pages 26-53 were approved by the Board of Directors on 26th September 2007 and were signed on its behalf by:

Gary Stokes
Chief Executive

David Kelham
Chief Financial Officer

Consolidated cash flow statement
for the year ended 30 June 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Net cash inflow from operating activities	20		8,296		2,900
Returns on investment and servicing of finance					
Interest received		175		18	
Interest paid		(785)		(486)	
			(610)		(468)
Taxation			(600)		(888)
Capital expenditure and financial investment					
Purchase of intangible fixed assets		-		(5)	
Purchase of tangible fixed assets		(654)		(172)	
Sale of tangible fixed assets		7		72	
			(647)		(105)
Acquisitions					
Purchase of interest in subsidiary undertaking	2	(14,044)		(1,789)	
Cash acquired with subsidiary undertakings (net of overdrafts)		(1,302)		(669)	
Deferred consideration in respect of previous acquisitions		(2,682)		-	
			(18,028)		(2,458)
Equity dividends paid	9		(192)		-
Net cash (outflow) before financing			(11,781)		(1,019)
Financing					
Increase in share capital	24	10,004		-	
Costs associated with issue of shares	26	(787)		-	
New borrowings	19	19,500		2,000	
Repayment of borrowings	19	(9,365)		(900)	
Repayment of finance lease (capital element)		(70)		(98)	
	21		19,282		1,002
Increase/(decrease) in cash in the year			7,501		(17)

Statement of total recognised gains and losses
for the year ended 30 June 2007

	2007	2006 (as restated)
	£'000	£'000
(Loss)/profit for the financial year	(10,418)	635
Foreign currency translation differences	-	2
	<hr/>	<hr/>
Total recognised gains and losses relating to the year	(10,418)	637
	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of movement in consolidated shareholders' funds
for the year ended 30 June 2007

	2007	2006 (as restated)
	£'000	£'000
(Loss)/profit for the financial year	(10,418)	635
Foreign currency translation differences	-	2
Dividend paid	(192)	-
FRS 20 share option (debit)/credit	(124)	124
Issue of share capital	9,217	-
	<hr/>	<hr/>
Net (decrease)/increase in equity shareholders' funds	(1,517)	761
Opening equity shareholders' funds	16,049	15,288
	<hr/>	<hr/>
Closing equity shareholders' funds	14,532	16,049
	<hr/> <hr/>	<hr/> <hr/>

There is no impact on equity shareholders' funds from the adoption of FRS 20.

Accounting policies

for the year ended 30 June 2007

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements, with the exception that the Group has adopted FRS 20: "Share-based payments" and FRS 26: "Financial Instruments Measurement" during the year. The accounting policies under these new standards are set out below, together with an indication of the effects of their adoption:

Prior year adjustment

Following the introduction of FRS 20: "Share-based payments", the Group has revised its accounting policy in respect of share option schemes. The impact on the comparatives is set out below:

Group	Profit and loss account – administration expenses	Shareholders' funds – profit and loss account
Year ended 30 June 2006	£'000	£'000
As previously stated	4,629	589
Prior year adjustment	124	-
	<hr/>	<hr/>
As restated	4,753	589
	<hr/> <hr/>	<hr/> <hr/>

The Company has adopted FRS 26: Financial instruments: Measurement (including amendments) in relation to financial guarantee contracts, which applies for the year commencing 1st July 2006. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards in the United Kingdom, which have been applied on a consistent basis, and on a going concern basis.

Basis of consolidation

The consolidated financial statements consolidate the results, cash flows and balance sheets of Fonebak plc and its subsidiary undertakings (together the "Group"). A list of the Company's subsidiary undertakings is given in note 13. The results of subsidiary undertakings acquired during a financial year are included from the date of acquisition. The financial statements of subsidiaries are prepared in accordance with the Company's accounting policies and to coterminous balance sheet dates, with the exception of Fonebak Servicii srl which continues to have a statutory year end of 31 December. Profits or losses on intra Group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities existing at the date of acquisition are reflected at their fair values.

Under Section 230(4) of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account.

Turnover and cost of sales

Turnover comprises invoiced amounts receivable by the Group, in the ordinary course of business, for sales of goods and services to third parties, excluding value added tax and other sales taxes. The Group records transactions as sales when the delivery of goods or performance of services has taken place in accordance with the terms of the sale.

A significant proportion of the turnover of the Group is generated from the sale of mobile phones and related accessories which are the subject of revenue sharing agreements with the clients that supply the mobile phones and accessories.

Accounting policies *for the year ended 30 June 2007*

Included in turnover is the value of spare parts, services and repairs provided to our customers. Revenue is recognised when repairs and services have been carried out and spares distributed.

Intangible assets and goodwill

Goodwill is calculated as the excess of the fair value of the purchase consideration over the fair value attributable to the separately identifiable assets and liabilities of the acquired subsidiary. Goodwill is capitalised on acquisition and amortised on a straight line basis over its estimated useful economic life. The life is determined after taking account of the nature of the business acquired and the nature of the markets in which it operates, and is typically between 5 and 20 years.

Fixed asset impairment

Goodwill and other intangible assets are reviewed for impairment at the end of the first full financial year following acquisition and, together with tangible fixed assets, in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable.

The impairment review is performed by comparing the carrying value of the asset or Group of assets, with their recoverable amount. The recoverable amount is the higher of net realisable value and the assets' value in use, which is estimated by calculating the present value of its future cash flows. Impairment charges are recognised in the profit and loss account to the extent that the carrying value exceeds the recoverable amount in the period in which the impairment is identified.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is provided at rates calculated to write off the cost less residual value of each asset on a straight line basis over the asset's estimated useful life as follows:

Leasehold improvements	-	over the period of the lease or life of the improvements if less
Motor vehicles	-	25% per annum
Plant and machinery	-	20% per annum
Computer hardware	-	33% per annum

Investments

Investments in subsidiary undertakings are stated in the balance sheet of the company at cost less amounts written off. Amounts denominated in foreign currency are translated into sterling at historical exchange rates. Other investments are stated in the company and Group balance sheets at cost less amounts written off.

Stock and work in progress

Stock and work in progress is stated at the lower of cost and net realisable value. Cost includes all direct expenditure and an appropriate proportion of attributable overheads.

For stock items acquired under revenue sharing agreements, as described above, legal title to the stock items does not pass to the Group until immediately before the items are sold by the Group. As the majority of the risks and rewards of the items received by the Group under the revenue sharing agreements reside with the Group, they are accounted for as stocks of the Group. Under revenue sharing agreements, cost is recorded at nil, except where an amount is paid to the suppliers in advance of the goods being sold or the Group guarantees that the suppliers will receive a minimum amount of the shared revenue. In these circumstances, the amount of the payment or guarantee is included in stock.

Accounting policies

for the year ended 30 June 2007

Deferred taxation

Deferred tax is recognised in respect of all timing differences which have originated but not reversed at the balance sheet date where transactions or events which result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in these consolidated financial statements.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in future has been entered into by the subsidiary

Deferred tax is measured at the average tax rates which are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws which have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on an undiscounted basis.

Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted or where there are deferred tax liabilities against which the assets can be recovered.

Leases

Rentals payable under operating leases are recognised in the profit and loss account on a straight line basis over the periods of the leases. Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown under creditors.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated into sterling at rates of exchange ruling at the balance sheet date. The profit and loss accounts and cash flows of overseas subsidiaries are translated into sterling at the weighted average exchange rates applicable during the year and their assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of opening net assets of overseas subsidiaries, together with differences between profit and loss accounts at average and closing rates, are shown as a movement in reserves. All other exchange differences are dealt with in the profit and loss account.

Pensions

The Group offers defined contribution pension arrangements to certain employees. Payments to defined contribution pension schemes are expensed as incurred. The Group does not operate any defined benefit pension arrangements.

Provisions

A provision is recognised when there is a present obligation, whether legal or constructive, as a result of a past event for which it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions in respect of deferred taxation are dealt with in the accounting policy above. Provisions in respect of deferred contingent consideration for acquisitions are made at the Directors' best estimate of the likely consideration payable taking account of the performance criteria which affect the level of deferred consideration.

Debt instruments and financing costs

Debt instruments are stated at the amount of the net proceeds received, adjusted for facility fee and redemption premium amortisation where the intention is to hold the debt instrument to maturity. Financing costs, including facility fees and redemption premia, are amortised over the term of the instrument so as to produce a constant rate of return over the period to the date of expected redemption. In instances where the Company has an early redemption option, the term over which facility fees and redemption premia are amortised is the period to the earliest date the option can be exercised, unless there is no genuine commercial possibility that the option will be exercised.

Accounting policies *for the year ended 30 June 2007*

Derivative financial instruments

Interest differentials, under interest rate swap agreements used to vary the amounts and periods for which interest on borrowings are fixed, are recognised by adjustment to interest payable. Premia or discounts arising are amortised over the life of the agreement. Interest rate swap agreements are not revalued to fair value or included in the balance sheet at period ends.

Government grants

Government grants are included within accruals and deferred income. Capital grants are credited to the profit and loss account over the estimated useful lives of the assets to which they relate. Other grants are credited to the profit and loss account in the same period as the costs to which they relate are incurred.

Share based payments

The share option programme allows employees to acquire shares of the Company. The fair value of options granted after 7th November 2002 and those not yet vested as at 1st July 2006, the effective date of FRS 20, are recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where variations are due only to share prices not achieving the threshold for vesting.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Own shares held by EBT

Transactions of the Company-sponsored EBT are treated as being those of the Company and are therefore reflected in the parent company and Group financial statements. In particular, the trust's purchases of shares in the Company are debited directly to equity.

Dividends on shares presented within equity

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Cash

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Notes to the financial statements

for the year ended 30 June 2007

1 - Segmental reporting

The Fonebak Group has two classes of business; (1) the repair, remarketing and re-cycling of mobile phones, accessories and related products, and services ("Environmental") and (2) the provision of repair and logistics of technology products including mobile communications equipment, computer components and other electronic equipment, and peripherals.

Turnover by class of business				
	2007	2007	2007	2006
	Ongoing activities £'000	Acquisitions £'000	Total £'000	Total £'000
Environmental	61,193	-	61,193	55,393
Repair	4,856	30,081	34,937	4,968
Total	66,049	30,081	96,130	60,361

Turnover by geographical destination				
	2007	2007	2007	2006
	Ongoing activities £'000	Acquisitions £'000	Total £'000	Total £'000
United Kingdom	13,238	19,975	33,213	17,056
Continental Europe	1,966	10,106	12,072	2,146
Africa	5,376	-	5,376	6,266
Asia Pacific	45,469	-	45,469	34,893
Total	66,049	30,081	96,130	60,361

Turnover by country of origin				
	2007	2007	2007	2006
	Ongoing activities £'000	Acquisitions £'000	Total £'000	Total £'000
United Kingdom	43,592	19,975	63,567	44,667
Continental Europe	22,457	10,106	32,563	15,694
Total	66,049	30,081	96,130	60,361

All intra segment revenue has been eliminated on consolidation.

Notes to the financial statements
for the year ended 30 June 2007

Operating (loss)/profit by class of business				
	2007	2007	2006	2006
	Operating (loss) before goodwill amortisation, exceptional items and share based payments £'000	Operating (loss) after goodwill amortisation, exceptional items and share based payments £'000	Operating profit before goodwill amortisation, exceptional items and share based payments £'000	Operating profit after goodwill amortisation, exceptional items and share based payments £'000
Environmental	(786)	(8,684)	4,216	2,688
Repair	462	(1,699)	(469)	(469)
Total operating (loss)/profit	(324)	(10,383)	3,747	2,219

Operating (loss)/profit by geographic origin				
	2007	2007	2006	2006
	Operating (loss) before goodwill amortisation, exceptional items and share based payments £'000	Operating (loss) after goodwill amortisation, exceptional items and share based payments £'000	Operating profit before goodwill amortisation, exceptional items and share based payments £'000	Operating profit after goodwill amortisation, exceptional items and share based payments £'000
United Kingdom	1,227	(8,730)	4,401	2,873
Continental Europe	(1,551)	(1,653)	(654)	(654)
Total operating (loss)/profit	(324)	(10,383)	3,747	2,219

The figures included in the 2006 accounts for profit by geographic location were previously reported as the profit of the overseas subsidiaries rather than actual business generated from continental Europe. The total operating profit was correct. A re-statement of the comparatives has also been necessary in accordance with FRS 20.

Notes to the financial statements

for the year ended 30 June 2007

Net assets by class of business		
	2007	2006
	£'000	£'000
Environmental	4,118	15,972
Repair	10,414	77
	<u>14,532</u>	<u>16,049</u>

Net assets by geographic origin		
	2007	2006
	£'000	£'000
United Kingdom	10,080	15,774
Continental Europe	4,452	275
	<u>14,532</u>	<u>16,049</u>

2 - Impact of acquisitions

On 15th September 2006 Fonebak was awarded a rolling annual contract by DSG Retail ("DSG") for the provision of mobile phone repair and administration services. At the same time, Fonebak acquired the trade and certain net assets of the Stoke based mobile phone repair and administration business of DSGi. The total consideration, including costs was £0.4m. The goodwill arising on consolidation amounted to £0.1m, which was fully written off in the year. This business was closed in September 2007.

In the year Fonebak also paid £2.4m in respect of deferred consideration for the acquisition of Intec Group Limited completed in 2005 – comprising Distribution and Cellular repair businesses based at Barnet. The Intec Cellular and Barnet site was closed in September 2007. At 30th June 2007, £58,000 of the deferred consideration remained outstanding and was subsequently paid at the beginning of September 2007.

The remainder of the deferred consideration paid in the year related to past acquisitions made by CRC. The final payment was made in August 2007.

On 14th December 2006 the Board announced it had agreed a bid for CRC Group Plc ("CRC") at 50p per share for its' then 24.6 million shares. On 24th January the offer was declared unconditional having been accepted by over 90% of CRC shareholders. The remaining shares were then acquired over the next 6 weeks.

The total consideration including fees for the CRC acquisition was £13.6 million.

The book and provisional fair values of CRC at the time of the acquisition comprised tangible assets of £2.5m, intangible assets of £7.0m, current assets of £16.8m, current liabilities of £13.3m and bank loans and overdrafts of £5.6m. Provisional goodwill of £13.3m arose on this acquisition.

Both transactions have been accounted for under the principles of acquisition accounting.

Notes to the financial statements

for the year ended 30 June 2007

3 – Goodwill amortisation, impairment and exceptional items

The goodwill amortisation charge rose from £1.3m in 2006 to £1.6m in 2007 as a result of the acquisitions of CRC and Stoke.

The significant downturn in the profitability of the Fonebak business has led to the Board carrying out an impairment review of all investments and goodwill carrying values. This review has been based on the Group's 3-year plan, which was prepared following the trading statement made in March 2007. The discounted cash-flows of the various business streams, comprising the identifiable income generating units of the Group, which were assessed as environmental, repair and, for the purposes of this exercise, the acquired CRC Group, have been calculated using a discount rate of 20%. This rate reflects, in the Board's opinion, a fair rate to evaluate the carrying value and risk profile of the income generating units.

Within the environmental unit an impairment of the goodwill associated with the original Fonebak businesses of £3.4m was charged against a previous carrying value of £14.5m. Likewise the goodwill associated with the Romanian operations of £0.9m was fully written off. In the repair unit the carrying value of the goodwill associated with the Stoke business (£0.1m) and the Intec operations at Barnet (£1.1m) were fully written off. No impairment arose against the goodwill of the CRC acquisition.

One off exceptional items totalling £2.1m have been charged reflecting closure and restructuring provisions for Barnet, Stoke and Romania. The major element of this reflects asset write downs and losses to closure. The post year end cash costs to be incurred are approximately £0.4m.

Costs associated with the refinancing and turnaround plan of £0.8m and the exceptional write off of previously capitalised IT and building costs of £0.2m arising from the termination of lease arrangements, have also been charged.

Finally, a credit of £0.1m has been processed reflecting the reversal of prior year charges for share-based payments (see note 25).

The tax effect of the exceptional items was a reduction in the tax charge of £940,000.

4 - Net interest payable

	2007 £'000	2006 £'000
Interest payable on bank loans and overdrafts	781	435
Exceptional financing costs	-	132
Finance lease interest	4	10
Other financing costs	36	41
Interest receivable in cash balances	(175)	(18)
	<hr/>	<hr/>
	646	600
	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements for the year ended 30 June 2007

5 - Profit on ordinary activities before taxation

Operating loss/profit is stated after charging:

	2007 £'000	2006 £'000
Depreciation of tangible fixed assets		
- owned assets	1,269	364
- assets held under finance leases	33	27
Amortisation of goodwill	1,581	1,274
Operating lease rentals		
- properties	1,782	679
- other	56	28
Auditors' remuneration		
- audit services Company	70	30
- audit services subsidiaries	68	63
- taxation services	40	-
- restructuring and reorganisation (included in exceptional items)	155	-
Exchange differences	28	8

6 – Staff numbers and staff costs

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

	2007 Number	2006 Number
Production	1,005	350
Sales and business development	18	14
Administration	133	36
	<u>1,156</u>	<u>400</u>

The aggregate payroll costs of these persons was as follows:

	2007 £'000	2006 £'000
Wages and salaries	18,561	6,443
Social security costs	2,127	784
Other pension costs	473	108
	<u>21,161</u>	<u>7,335</u>

Disclosure in respect of Directors' remuneration are included in the Directors' emoluments table in the remuneration report.

Notes to the financial statements
for the year ended 30 June 2007

7 – Tax on loss/profit on ordinary activities

Analysis of (credit)/charge in the year

	2007	2006
	£'000	£'000
UK Corporation tax		
- current tax on income for the year	(838)	990
Overseas tax	123	36
	<hr/>	<hr/>
Total current tax	(715)	1,026
Deferred tax		
- current year	100	(19)
- prior year	4	(23)
	<hr/>	<hr/>
Tax on (loss)/profit on ordinary activities	(611)	984
	<hr/> <hr/>	<hr/> <hr/>

The current tax credit (2006: charge) is lower (2006: higher) than the standard rate of corporation tax in the UK as explained below:

	2007	2006 (as restated)
	£'000	£'000
(Loss)/profit on ordinary activities before tax	(11,029)	1,619
	<hr/>	<hr/>
Tax at standard rate of UK Corporation Tax of 30%	(3,309)	486
Effects of:		
Adjustment in respect of foreign tax rates	-	14
Non deductible goodwill amortisation	474	381
Non deductible goodwill impairment	1,641	-
Other expenses not deductible for tax purposes	420	86
Depreciation in excess of capital allowances	101	22
Other timing differences and loss utilisation	(42)	37
	<hr/>	<hr/>
Current tax charge for the year	(715)	1,026
	<hr/> <hr/>	<hr/> <hr/>

The tax charge in future tax periods may be affected by the Group's ability to utilise tax losses carried forward. Tax rates and overseas territories differ from those in the UK, impacting the Group's overall effective tax rate.

Notes to the financial statements

for the year ended 30 June 2007

8 – Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the earnings/(loss) attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings/(loss) per share is based on the basic earnings/(loss) per share, adjusted to allow for the issue of shares on the assumed conversion of all dilutive options.

Reconciliations of the earnings/(loss) and weighted number of shares used in the calculations are set out below:

	Earnings £'000	2007 Weighted average no. of shares Number	Earnings per share Pence	2006 (as restated)		
				Earnings £'000	Weighted average no. of shares Number	Earnings per share Pence
Basic (loss)/earnings per share	(10,418)	22,015,310	(47.32)	635	19,199,995	3.31
Effect of dilutive options	-	231,990	0.49	-	404,006	(0.07)
Diluted (loss)/earnings per share	(10,418)	22,247,300	(46.83)	635	19,604,001	3.24

An adjusted earnings/(loss) per share has also been presented, which the Directors consider gives a useful additional indication of the Group's performance. It is based on adjustments to profit after taxation for the year in respect of exceptional items (net of tax), the amortisation of goodwill and share based payment charges. The effects of the adjustments are as follows:

	Earnings £'000	2007 Weighted average no. of shares Number	Earnings per share Pence	2006 (as restated)		
				Earnings £'000	Weighted average no. of shares Number	Earnings per share Pence
Basic (loss)/earnings per share	(10,418)	22,015,310	(47.32)	635	19,199,995	3.31
Post tax effect of excluding amortisation of goodwill and exceptional items	9,119	-	41.42	1,497	-	7.79
Adjusted basic (loss)/earnings per share	(1,299)	22,015,310	(5.90)	2,132	19,199,995	11.10
Diluted earnings/(loss) per share	(10,418)	22,247,300	(46.83)	635	19,604,001	3.24
Post tax effect of excluding amortisation of goodwill and exceptional items	9,119	-	40.99	1,497	-	7.63
Adjusted diluted (loss)/earnings per share	(1,299)	22,247,300	(5.84)	2,132	19,604,001	10.87

Notes to the financial statements

for the year ended 30 June 2007

9 – Dividends

The Directors in office at the date of signing the Group's accounts for 30th June 2006 resolved to pay a dividend of 1 pence per share. This was paid in December 2006. No dividend is proposed for the year ended 30th June 2007.

10 – Parent company exemption

The parent company has taken advantage of the exemption allowed under Section 230 (4) of the Companies Act 1985 and has not presented its own profit and loss account within these financial statements. The Group loss for the year (after tax) includes a loss of £738,000, (2006: profit of £1,020,000) relating to the company.

11 – Intangible assets - goodwill

	2007	2006	2007	2006
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Cost				
1 st July 2006	21,131	17,782	16,854	16,854
Acquisitions	13,280	3,349	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
30 th June 2007	34,411	21,131	16,854	16,854
	<hr/>	<hr/>	<hr/>	<hr/>
Amortisation				
1 st July 2006	2,011	737	1,507	664
Amortisation charge for the year	1,581	1,274	842	843
Impairment	5,469	-	3,373	-
	<hr/>	<hr/>	<hr/>	<hr/>
30 th June 2007	9,061	2,011	5,722	1,507
	<hr/>	<hr/>	<hr/>	<hr/>
Net book value				
30 th June 2007	25,350	19,120	11,132	15,347
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
30 th June 2006	19,120	17,045	15,347	16,190
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the financial statements for the year ended 30 June 2007

12 – Tangible assets

Group	Leasehold Improvements £'000	Plant & Machinery £'000	Computer Equipment £'000	Motor Vehicles £'000	Fixture & Fittings £000	Total £'000
Cost						
1st July 2006	604	740	698	145	-	2,187
Acquisitions	1,679	8,275	3,857	12	1,640	15,463
Additions	100	223	254	47	30	654
Reclassification	-	20	(7)	-	(13)	-
Disposals	(134)	(2,524)	(459)	(107)	(63)	(3,287)
Exchange adjustments	5	23	-	(1)	-	27
30th June 2007	2,254	6,757	4,343	96	1,594	15,044
Depreciation						
1st July 2006	261	510	556	132	-	1,459
Acquisitions	1,088	7,321	3,220	12	1,247	12,888
Provided in the year	229	508	410	19	136	1,302
Disposals	(134)	(2,524)	(454)	(105)	(63)	(3,280)
Reclassification	-	14	(8)	-	(6)	-
Exchange adjustments	-	8	-	-	-	8
30th June 2007	1,444	5,837	3,724	58	1,314	12,377
Net book value						
30th June 2007	810	920	619	38	280	2,667
30th June 2006	343	230	142	13	-	728

The net book value of finance leases included within plant and machinery amounted to £4,000 (2006: £nil) and the related depreciation charge was £2,000 (2006: £nil).

Company	Leasehold Improvements £'000	Plant & Machinery £'000	Computer Equipment £'000	Motor Vehicles £'000	Total £'000
Cost					
1st July 2006	186	492	609	121	1,408
Additions	46	20	138	47	251
Disposals	-	-	(4)	(102)	(106)
30th June 2007	232	512	743	66	1,553
Depreciation					
1st July 2006	177	387	522	109	1,195
Provided in the year	55	52	173	18	298
Disposals	-	-	-	(98)	(98)
30th June 2007	232	439	695	29	1,395
Net book value					
30th June 2007	-	73	48	37	158
30th June 2006	9	105	87	12	213

Notes to the financial statements for the year ended 30 June 2007

13 – Fixed asset investments

Company

	Shares in subsidiary undertakings
Cost	£'000
1 st July 2006	5,177
Acquisitions	13,638
	<hr/>
30 th June 2007	18,815
	<hr/>
Impairment	
1 st July 2006	-
Impairment charge for the year	2,002
	<hr/>
30 th June 2007	2,002
	<hr/>
Net book value	
30 th June 2007	16,813
	<hr/> <hr/>
30 th June 2006	5,177
	<hr/> <hr/>

Principal subsidiary undertakings at 30th June 2007

Name	Country of incorporation	Proportion of voting rights and ordinary share capital held	Nature of business
Fonebak SA	Belgium	100%	Support services for the Fonebak business
Fonebak SARL	France	100%	As above
Fonebak GmbH	Germany	100%	As above
Fonebak Servicii srl	Romania	100%	Repair and refurbishment of mobile phones
Fonebak Trustees Limited	England and Wales	100%	Employee Benefit Trust
Intec Group Limited	England and Wales	100%	Holding company
Intec Cellular Services Limited	England and Wales	100%	Repair of mobile phones
Intec Distribution Limited	England and Wales	100%	Resale and distribution of mobile phones
CRC Group plc	England and Wales	100%	Holding company
Computer Repair Centre Limited	England and Wales	100%	Management and provision of service and repair of electronic equipment, computer components and peripherals
CRC (Grossbeeren) GmbH*	Germany	100%	As above
CRC (Deutschland) GmbH	Germany	100%	As above
Communicaid Limited**	England and Wales	100%	Service and repair management of telecommunications equipment, including mobile phones
Communication Repair Centre (UK) Limited	England and Wales	100%	As above
CRC Communicaid sp z.o.o.	Poland	100%	As above
CRC Communicaid Limited	Republic of Ireland	100%	As above
CRC Global Limited	England and Wales	100%	Intermediate holding company

* Held by CRC Global Limited

** Held by Computer Repair Centre Limited

All of the above subsidiaries are included in the Group's consolidated financial statements.

Fonebak Servicii srl has a 31 December year end because of Romanian requirements.

Notes to the financial statements for the year ended 30 June 2007

14 – Stock

	2007	2006	2007	2006
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Raw materials and consumables	3,134	922	48	564
Work in progress	212	-	-	-
Goods held for re-sale	2,733	6,957	1,244	6,484
	<u>6,079</u>	<u>7,879</u>	<u>1,292</u>	<u>7,048</u>

15 – Debtors

Amounts falling due within one year

	2007	2006	2007	2006
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Trade debtors	13,869	5,221	813	3,276
Amounts due from subsidiaries	-	-	9,589	1,056
Deferred tax asset (note 16)	1,240	42	78	42
Corporation tax asset	1,287	-	886	-
Other debtors	343	305	140	301
Prepayment and accrued income	2,199	1,002	294	554
	<u>18,938</u>	<u>6,570</u>	<u>11,800</u>	<u>5,229</u>

16 - Deferred tax

The movement in deferred tax assets/(liabilities) are as follows:

	Group	Company
	£'000	£'000
1 st July 2006	42	42
Credit/(charge) to the profit and loss account for the year	(104)	36
On acquisition of businesses	1,302	-
30 th June 2007	<u>1,240</u>	<u>78</u>

The elements of deferred tax are as follows:

	2007	2006	2007	2006
	Group	Group	Company	Company
	£'000	£'000	£'000	£'000
Depreciation in excess of/(less than) capital allowances	621	42	78	42
Other timing differences	301	-	-	-
Tax losses	318	-	-	-
	<u>1,240</u>	<u>42</u>	<u>78</u>	<u>42</u>

As at 30th June 2007 there was no un-provided deferred tax, (2006: £109,000). This comprised tax losses £106,000 and depreciation in excess of capital allowances £3,000. The Company has no un-provided deferred tax.

Notes to the financial statements for the year ended 30 June 2007

17 - Creditors amounts falling due within one year

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Bank loans and other borrowings	5,934	1,400	5,508	1,400
Trade creditors	5,272	2,795	889	1,639
Finance leases	8	24	-	1
Corporation tax	-	527	-	443
Other taxes and social security	856	205	65	56
Other creditors	3,012	73	-	-
Deferred consideration	153	2,463	58	2,463
Accruals and deferred income	18,339	8,144	9,621	7,482
	<u>33,574</u>	<u>15,631</u>	<u>16,141</u>	<u>13,484</u>

18 – Creditors amounts falling due after more than one year

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Bank loans and other borrowings	14,000	3,700	14,000	3,700
Finance leases	-	54	-	3
	<u>14,000</u>	<u>3,754</u>	<u>14,000</u>	<u>3,703</u>

19 - Bank and other borrowings

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Due within one year:				
Secured bank loans	5,500	1,400	5,500	1,400
Unsecured overdrafts	434	-	8	-
Finance leases	8	24	-	1
	<u>5,942</u>	<u>1,424</u>	<u>5,508</u>	<u>1,401</u>
Total due within one year (note 17)	5,942	1,424	5,508	1,401
Due after one year:				
Secured bank loans (note 18)	14,000	3,700	14,000	3,700
Finance leases	-	54	-	3
	<u>19,942</u>	<u>5,178</u>	<u>19,508</u>	<u>5,104</u>

Analysis of debt

	2007 Group £'000	2006 Group £'000	2007 Company £'000	2006 Company £'000
Within one year:				
Bank loan and overdrafts	5,500	1,400	5,500	1,400
Finance leases	8	24	-	1
After one year and within two years				
Bank loan	3,500	1,600	3,500	1,600
Finance leases	-	54	-	3
After two years and within five years				
Bank loan	10,500	2,100	10,500	2,100
	<u>19,508</u>	<u>5,178</u>	<u>19,508</u>	<u>5,104</u>

Notes to the financial statements

for the year ended 30 June 2007

On 14th December 2006 Fonebak entered into a new facility with KBC Bank NV totaling £25m, secured on all of the Group's assets, comprising:

- a) a £17.5m sterling term loan, drawn in February 2007, repayable over 5 years on a straight-line basis commencing at the end of September 2007. This term loan was supported by an interest rate swap arrangement to effectively fix the interest rate
- b) a multicurrency revolving credit facility ("RCF") of £7.5m. In February 2007 £2.0m of the RCF was drawn in cash, £5.0m was set aside as security for Letters of Credit in favor of the Group's clearing banks and £0.5m remained un-drawn.

The combination of the cash drawings on this bank debt of £19.5m and the new equity of £10.0m financed the acquisition of CRC for £13.6m, including fees, and the repayment of the existing CRC and Fonebak bank loans of £9.4m.

Following the trading statement issued in March 2007 the Group has been in discussions with KBC Bank NV. On 18th September 2007 the Group concluded a re-shaping of the overall facility. The Group intends to make all repayments as originally scheduled - the first £1.75m being on 28th September 2007. The Group has also agreed a more flexible structure, which will allow it to effectively offset the positive cash balances it holds with its clearers.

The Group's new facility of £25.0m is now fully structured on an RCF basis, giving the Group the ability to retain all or part of the existing interest rate swap arrangements. Repayment terms remain as set out above. The facility is secured on all of the Group's assets.

The Group has a small finance lease obligation of £8,000 remaining at the balance sheet date which will be paid up as part of the closure of Intec Cellular Ltd within the coming year.

20 - Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2007	2006 (as restated)
	£'000	£'000
Operating (loss)/profit	(10,383)	2,219
Depreciation charge	1,282	391
Amortisation of goodwill	7,050	1,274
Share option scheme	(124)	124
Decrease/(increase) in stock	4,759	(2,514)
Decrease/(increase) in debtors	2,249	(1,109)
Increase in creditors	3,463	2,515
Net cash inflow from operating activities	8,296	2,900

Notes to the financial statements for the year ended 30 June 2007

21 - Reconciliation of net cash flow to movement in net debt

	2007	2006
	£'000	£'000
Increase/(decrease) in net cash	7,501	(17)
Cash inflow from increase in debt and lease financing	(10,065)	(337)
Change in net debt resulting from cash flows	(2,564)	(354)
Loans and finance leases acquired with subsidiaries	(4,265)	(841)
Decrease in net debt in the year	(6,829)	(1,195)
Net debt at 1 st July	(4,041)	(2,846)
Net debt at 30th June	(10,870)	(4,041)

22 - Analysis of changes in net debt

	Cash in hand and at bank	Overdrafts	Total net cash	Debt due within one year	Debt due after one year	Total debt	Net debt
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1 st July 2006	1,137	-	1,137	(1,424)	(3,754)	(5,178)	(4,041)
Cash flow	7,935	(434)	7,501	181	(10,246)	(10,065)	(2,564)
Acquisition (excluding cash and overdrafts)	-	-	-	(4,265)	-	(4,265)	(4,265)
30th June 2007	9,072	(434)	8,638	(5,508)	(14,000)	(19,508)	(10,870)

23 – Financial instruments

The Group's financial instruments comprise cash, overdrafts, bank loans and various other debtor and creditor balances which arise from its operations. The Group's policy is not to enter into derivative contracts (including forward foreign exchange contracts) with the exception of an interest rate swap instrument entered into as a condition of the Group's bank facilities. The main financial risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Directors review and agree policies for managing each of these risks.

Short term debtors and creditors are excluded from all following disclosures except for the currency risk disclosures.

Interest rate risk and currency profile of financial assets and liabilities

The currency and interest rate risk profile of the Group's financial assets and liabilities at the balance sheet date was:

Financial assets

The Group has no financial assets other than cash all of which are at floating rate. At the year end the underlying currencies of the Group's cash deposits were as follows:

	2007	2006
	£'000	£'000
Sterling	8,089	(611)
Euro	850	1,725
Polish Zlotti	92	-
Other	41	23
	9,072	1,137

Notes to the financial statements

for the year ended 30 June 2007

Financial liabilities

	2007	2007	2007	2006	2006
	Floating rate	Fixed rate	Total	Floating rate	Total
	£'000	£'000	£'000	£'000	£'000
Sterling	2,434	17,508	19,942	5,178	5,178
	<u>2,434</u>	<u>17,508</u>	<u>19,942</u>	<u>5,178</u>	<u>5,178</u>
	<u><u>2,434</u></u>	<u><u>17,508</u></u>	<u><u>19,942</u></u>	<u><u>5,178</u></u>	<u><u>5,178</u></u>

Hedging

As at 30th June 2007, the Group had in place an interest rate swap agreement to effectively fix the interest rate on the term loan of £17.5m. The fair value of this swap immediately before the refinancing agreement of the 18th of September 2007 was an asset of approximately £175,000.

Undrawn committed borrowing facilities

The Group had an undrawn facility of £0.5m available at 30 June 2007 (2006: £4.5 million).

Currency risk

The table below shows the extent to which the Group had monetary assets and liabilities denominated in currencies other than the local currency of the Company in which they are recorded. Foreign exchange differences on the retranslation of these assets and liabilities are recognised in the profit and loss account of the Group.

Net foreign currency monetary assets/(liabilities)

	2007	2007	2007	2006	2006
	US dollars	Euro	Total	Euro	Total
	£'000	£'000	£'000	£'000	£'000
Functional currency of Group operation:					
Sterling	41	123	164	(69)	(69)
Polish Zlotti	-	487	487	-	-
	<u>41</u>	<u>610</u>	<u>651</u>	<u>(69)</u>	<u>(69)</u>
	<u><u>41</u></u>	<u><u>610</u></u>	<u><u>651</u></u>	<u><u>(69)</u></u>	<u><u>(69)</u></u>

Fair values

The fair values of the Group's financial assets and liabilities are not materially different from their book values.

24 – Called up share capital

	2007	2007	2006	2006
	Number of shares	£'000	Number of shares	£'000
Authorised:				
Ordinary shares of 2p	40,000,000	800	40,000,000	800
	<u>40,000,000</u>	<u>800</u>	<u>40,000,000</u>	<u>800</u>
Allotted, called up and fully paid:				
Ordinary shares of 2p	28,342,577	566	19,199,995	384
	<u>28,342,577</u>	<u>566</u>	<u>19,199,995</u>	<u>384</u>
	<u><u>28,342,577</u></u>	<u><u>566</u></u>	<u><u>19,199,995</u></u>	<u><u>384</u></u>

The shares in issue in the Group have increased from 19,199,995 at 30th June 2006 to 28,342,577 at 30th June 2007. This increase has arisen as a result of the 6,756,757 shares issued in January at £1.48 to help fund the CRC acquisition and repay existing Fonebak debt, the taking up, prior to his leaving, of 235,825 options previously granted to the former Finance Director at 2p and the issue of the 2,150,000 shares to the EBT.

Notes to the financial statements for the year ended 30 June 2007

The following outstanding options have been granted to the directors and employees of the Group under the Fonebak EMI plan and the Executive Share Options plan over shares in Fonebak plc. Details of share options held by Directors are included in the Remuneration report.

	Date of grant	1 st July 2006	Granted	Lapsed	Exercised	30 th June 2007	Exercise price	Exercise period
Fonebak EMI Plan	15.11.2004	235,825	-	-	(235,825)	-	£0.02	15.11.2004 to 14.11.2014
Fonebak EMI Plan	23.03.2005	864,000	-	(864,000)	-	-	£1.25	23.03.2008 to 22.03.2015
Fonebak EMI Plan	31.03.2005	144,000	-	(72,000)	-	72,000	£1.25	31.03.2008 to 31.03.2015
Fonebak EMI Plan	26.10.2005	200,000	-	(80,000)	-	120,000	£1.325	26.10.2008 to 23.10.2015
Fonebak EMI Plan	11.09.2006	-	151,820	(151,820)	-	-	£1.275	11.09.2009 to 11.09.2016
Fonebak EMI Plan	26.09.2006	-	40,000	-	-	40,000	£1.375	26.09.2009 to 26.09.2016
Employee Benefit Trust	26.06.2007	-	2,150,000	-	-	2,150,000	£0.555	From 30.06.2010
		<u>1,443,825</u>	<u>2,341,820</u>	<u>(1,167,820)</u>	<u>(235,825)</u>	<u>2,382,000</u>		

The above note relates to the Group and the Company.

The 235,825 options granted on 15 November 2004 were granted before the amendments to the EMI Plan and are not subject to performance criteria. The EMI Plan was amended on 7th March 2005 and all options granted since this date are in accordance with the amended EMI Plan, which has performance criteria which require 5% average annual growth in earnings per share over the three years from 1 July 2005 to 30 June 2008.

Employee Benefit Trust

Details of ordinary shares held by the Employee Benefit Trust are as follows:

	Number
At 1 July 2006	-
Allotted by the Company during the year	<u>2,150,000</u>
At 30 June 2007	<u><u>2,150,000</u></u>

The shares were issued on 26th June 2007 and are exercisable from 30th June 2010. The share price at the date of grant was 55.5p.

The performance conditions of the scheme are disclosed on page 16.

At 30 June 2007 the market value of the shares held by the scheme, but not vested, was £1,193,250.

25 - Share based payment charge

For the options granted during the year under the Fonebak EMI Plan, the estimate of the fair value of the services received is measured on a Black-Scholes option pricing model using the following assumptions.

Weighted average share price	2007	2006
Exercise price	129.6	132.5
Expected volatility	129.6	132.5
Option Life	25%	25%
Dividend yield	3.5 years	3.5 years
Risk-free interest rate (based on Government bonds)	1%	1%
	4.8%	4.4%

Notes to the financial statements

for the year ended 30 June 2007

In the year a credit of £124,000 arose from equity-settled share based payments, (2006: £124,000 charge). The credit in the year was the reversal of the prior year charge to reflect lapsed options and amendments to the plan. There is no charge in the year relating to the executive share plan, as the share options were granted on 26th June 2007.

26 – Reserves

Group	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000
1 st July 2006	15,076	589	15,665
Issue of new shares	11,015	-	11,015
Expenses of issue	(787)	-	(787)
Own shares held by EBT	-	(1,193)	(1,193)
Retained for the year	-	(10,418)	(10,418)
Dividends	-	(192)	(192)
Share based payments	-	(124)	(124)
	<hr/>	<hr/>	<hr/>
30 th June 2007	25,304	(11,338)	13,966
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Company	Share premium account	Profit and loss account	Total
	£'000	£'000	£'000
1 st July 2006	15,076	912	15,988
Issue of new shares	11,015	-	11,015
Expenses of issue	(787)	-	(787)
Own shares held by EBT	-	(1,193)	(1,193)
Retained for the year	-	(9,212)	(9,212)
	<hr/>	<hr/>	<hr/>
30 th June 2007	25,304	(9,493)	15,811
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

27 – Pension

Benefits from the Group's pension scheme are related to the cash value of the funds at retirement dates and the Group is under no obligation to provide any minimum level of benefits.

In overseas countries, the Group provides arrangements in accordance with statutory and local customs practice.

Contributions payable in the period amounted to £386,000 (2006: £108,000). There were no outstanding or prepaid pension contributions at the 30th June 2007 (2006: £nil). The Group does not operate any defined benefit pension arrangements.

Notes to the financial statements
for the year ended 30 June 2007

28 – Operating lease commitments

	2007	2007	2006	2006
	Land and Buildings	Other	Land and Buildings	Other
	£'000	£'000	£'000	£'000
Lease expiry:				
Within one year	163	130	463	1
In two to five years	1,204	68	135	13
After five years	984	-	-	1
	<hr/>	<hr/>	<hr/>	<hr/>
	2,351	198	598	15
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

29 – Capital commitments

The only capital spend which had been committed to by 30th June 2007 to be spent in the forthcoming year related to the establishment of our new facility at Sommerda in Germany. As at 30th June £134,000 had been committed (2006: £Nil).

30 – Contingent liabilities

The Directors are not aware of any material contingent liabilities either in the Company or in the Group. All known liabilities are provided for in the accounts.

31 – Guarantees

In April 2006 CRC Group Plc signed a "patronage letter" under Italian law whereby it guaranteed the overdraft and debt factoring debts of its Italian businesses to its Italian banks. The amount payable under these agreements is not more than €630,000 (£430,000) and is fully provided in these accounts.

Notes to the financial statements for the year ended 30 June 2007

32 – Acquisitions – trading history

The impact of the acquisitions is included in Note 2.

The summarised profit and loss account of CRC Group Plc for the period from 1st January 2007 to 23rd January 2007, being the period from the beginning of their financial year to the date of acquisition, is disclosed below, together with the summarised profit and loss account for the year ended 31st December 2006.

	Period from 1 January 2007 to 23 January 2007 £'000	Year ended 31 December 2006 £'000
Turnover	5,464	73,198
Operating profit/(loss)	75	(17,197)
Net interest payable	(42)	(643)
	<hr/>	<hr/>
Profit/(loss) before taxation	33	(17,840)
Taxation	(27)	896
	<hr/>	<hr/>
Profit/(loss) and total recognised gains and loses for the financial period	6	(16,944)
	<hr/> <hr/>	<hr/> <hr/>

The above figures have been extracted from the management accounts of the entities (2007) and the locally filed accounts (2006).

The business acquired during the year contributed the following amounts to the Group's consolidated cash flows:

	Period from 24 January 2007 to 30 June 2007 £'000
Net cash inflow from operating activities	1,590
Returns on investment and servicing of finance	(134)
Taxation	(14)
Capital expenditure	(268)
	<hr/> <hr/>

33 – Related party disclosure

There were no related party transactions in the year requiring disclosure under FRS8.

34 – Post Balance Sheet event

As laid out in note 19 the Group completed a successful re-structuring of its £25 million loan facility with KBC Bank on 18th September 2007.

Notice of annual general meeting

Notice is hereby given that the third Annual General Meeting of Fonebak plc ("the Company") will be held at KBC Peel Hunt, 111 Old Broad Street, London EC2N 1PH on 21ST December 2007 at 12.00 Noon for the following purposes:

Ordinary business

1. To receive the Directors' report, the Directors' remuneration report and the Company's annual accounts for the year ended 30 June 2007, together with the auditors' report on those accounts.
2. To re-elect David Holland, who retires by rotation, as a Non-Executive Director of the Company.
3. To re-appoint Gary Stokes as a Director of the Company.
4. To re-appoint David Kelham as a Director of the Company.
5. To re-appoint Jeffrey Hewitt as a Non-Executive Director of the Company.
6. To re-appoint KPMG Audit plc as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next annual general meeting of the Company at which accounts are laid.
7. To authorise the Directors to agree the remuneration of KPMG Audit plc.

Special business

To consider and, if thought fit, to pass the following resolutions which will be proposed, as to resolution 8 as an ordinary resolution and as to resolutions 9 and 10 as special resolutions:

8. That, pursuant to Section 80 of the Companies Act 1985 ("the Act") and in substitution for all existing authorities under that section, the Directors be and are hereby unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £188,950 (being 9,447,500 ordinary shares) provided that (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the next annual general meeting of the Company after passing of this resolution, save that the Company may make an offer or agreement before expiry of this authority which would or might require relevant securities to be allotted after such expiry and the Directors may allot relevant securities pursuant to any such offer or agreement as if such authority conferred had not expired.

9. That, subject to the passing of resolution 8, pursuant to section 95 of the Act and in substitution of all existing authorities under that section, the Directors be and are hereby unconditionally empowered to allot equity securities (within the meaning of Section 94(2) of the Act) for cash pursuant to the authority conferred by resolution 8 as if Section 89(1) of the Act did not apply to such allotment, provided that such power shall be limited to:

- (a) the allotment of equity securities in connection with an offer (whether by way of a rights issue, open offer or otherwise) to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to such fractional entitlements or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and
- (b) the allotment of equity securities for cash (otherwise than pursuant to paragraph (a) above) up to an aggregate nominal amount of £28,342,

and (unless previously revoked, varied or renewed) shall expire at the conclusion of the next annual general meeting of the Company after the

Notice of annual general meeting

passing of this resolution, save that the Company may make an offer or agreement before the expiry of this power which would or might require equity securities to be allotted for cash after such expiry and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if the power conferred by this resolution had not expired.

10. That pursuant to section 166 of the Act, the Company be and is generally and unconditionally authorised to make market purchases (within the meaning of section 163 of the Act) of ordinary shares of 2 pence each in the capital of the Company ("Shares"), provided that:

- (a) the maximum number of Shares which may be purchased is 2,834,257;
- (b) the minimum price (exclusive of expenses) that may be paid for a share is 2 pence;
- (c) the maximum price (exclusive of expenses) which may be paid for a Share is an amount equal to 105 per cent of the average of the middle market quotations for the Shares as derived from the Daily Official List for the five business days immediately preceding the day on which the purchase is made and (unless previously revoked, varied or renewed) such authority shall expire at the conclusion of the next annual general meeting of the Company, save that the Company may enter into a contract to purchase Shares before the expiry of this authority under which such purchase will or may be completed or executed wholly or partly after such expiry and may make a purchase of Shares pursuant to any such contract as if the authority conferred by this resolution had not expired.

By Order of the Board

J.N. Temple

Company Secretary
20th November 2007

Company Number: 5113820
Registered Office:
4 Elm Place
Old Witney Road
Eynsham, Oxford
OX29 4BD

Notes

1. In accordance with Regulation 41 of the Un-certificated Securities Regulations 2001, only those members registered in the register of members of the Company as at 12 Noon on 19 December 2007 or, in the event the meeting is adjourned, in the register of members 48 hours before the time of any adjourned meeting shall be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries in the register of members after 12 Noon on 19 December 2007 or, in the event of the meeting being adjourned, after 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2. A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to exercise all or any of his rights to attend, speak and vote at the meeting. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. A proxy need not be a member of the company. The appointment of a proxy will not preclude a member from attending and voting in person at the meeting if he or she so wishes.

Notice of annual general meeting

3. A form of proxy is enclosed. To be valid, it must be returned by one of the following methods:-

(a) in hard copy form (together with any power of attorney or other written authority under which it is signed or a copy of such authority notarially certified or certified in some other way by the Directors) by post, courier or by hand to the offices of the Company's registrars, Computershare Investor Services PLC, PO Box 1075, The Pavilions, Bridgwater Road, Bristol BS13 8FB; or

(b) in the case of CREST members, by utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

In each case, instructions must be received by 12 Noon on 19 December 2007 or, in the event the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting.

4. CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited ("EUI") specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it relates to the appointment of a proxy or to an amendment to the instructions given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent ID 3RA50 by the latest time for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Un-certificated Securities Regulations 2001. CREST members and, where applicable, their CREST sponsors or voting service provider(s) should note that EUI does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

5. In the case of joint holdings, only one holder may sign and the vote of the senior who tenders a vote shall be accepted to the exclusion of the votes of the other joint holders, seniority for this purpose being determined by the order in which the names stand on the register of members in respect of joint holdings.

6. Copies of the Directors' service contracts and letters of appointment will be available for inspection during normal business hours at the registered office of the Company (excluding weekends and public holidays). They will also be available for inspection at the place of the annual general meeting from 11.30am on the day of the meeting until the conclusion of the meeting:

7. Biographical details of all those Directors who are offering themselves for re-election or re-appointment at the meeting are set out on pages 12-13 of the attached report and accounts.

Directors and Advisors

Company number

05113820

Directors**Gordon Shields**

(Non-Executive Chairman)

Jeff Hewitt

(Non-Executive Chairman from 1 November 2007)

David Holland

(Non-Executive Director)

Gary Stokes

(Chief Executive Officer)

David Kelham

(Chief Financial Officer)

Company Secretary and registered office**Nick Temple**

4 Elm Place
Old Witney Road
Eynsham
Oxford OX29 4BD

Nominated advisor and broker**KBC Peel Hunt**

111 Old Broad Street
London EC2N 1PH

Independent auditors**KPMG Audit plc**

2 Cornwall Street
Birmingham B3 2DL

Main Bankers

KBC Bank
111 Old Broad Street
London EC2N 1PH

Registrars**Computershare Investor Services plc**

PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

