

PRESS RELEASE

21 August 2008

Telephonetics Plc Unaudited interim results For the six months to 31 May 2008

Telephonetics Plc ('Telephonetics' or 'the Company' or 'the Group'), a leading provider of hosted and customer premises speech recognition and voice automation solutions, today announces its interim results for the six months ended 31 May 2008 under IFRS.

Highlights

- Group moves to an operating profit before restructuring costs of £414,000 (2007: loss £26,000)
- Operating profit of £493,000 (2007: loss £173,000)
- Profit before tax of £596,000 (2007: loss £119,000)
- Cash generated from operating activities up 89% to £688,000
- Debt free balance sheet with net cash of £4.67m
- Earnings per share 0.42p (2007: loss per share of 0.11p)
- Gross margin up 3 percentage points to 62%
- Two new customers acquired per month with over 530 deployments under contract
- New partnership agreements increase Telephonetics' presence in the public sector

Mike Neville, Chairman of Telephonetics, commented:

"Telephonetics has made a good start to the year, driven primarily by our continued focus on smart, packaged applications that address real customers needs using speech recognition and voice automation. This has resulted in a move into profit, aided by further improvements in gross margin and the provision of additional value added services to our ever-widening client base. Our balance sheet has also strengthened further thanks to our excellent cash generation.

"Strategically, we have continued to focus on specific market segments with a strong product portfolio targeted at particular customer needs. Within the public sector, for example, we have seen strong demand for our packaged applications and have signed new partnership agreements that will strengthen our route to market. We remain confident that Telephonetics will continue to make good progress in the second half of the year."

For further information please contact:

Telephonetics

James Ormondroyd (Finance Director) +44 (0) 1442 242242

Maitland

Neil Bennett +44 (0) 207 379 5151
Charlotte Walsh

Brewin Dolphin Investment Banking +44 (0) 113 241 0130
Nominated Adviser & Broker
Neil Baldwin

Financial Review

During the six months to 31 May 2008, unaudited revenue decreased slightly by 4% to £4.62m, largely as a result of lower revenues from MovieLINE[®], driven by the trend towards internet bookings and a lack of blockbuster films in the period. Despite this the Group made an operating profit before restructuring costs of £414,000, up from a loss the previous year of £26,000 (and after restructuring costs an operating profit of £493,000 up from a loss the previous year of £173,000). Similarly, profit before tax increased to £596,000 from a loss the previous year of £119,000 as a result of higher gross margins and lower operating expenses.

Gross margins increased 3 percentage points to 62% as a result of higher margin packaged application and service income constituting a higher proportion of revenue, together with the achievement of further service efficiencies.

The Group remains debt free and as a result, cash generated from operating activities of £688,000 (2007: £363,000) meant that net funds increased by £637,000 to £4.67m from £4.03m at 30 November 2007.

Cash spent on investing activities totalled £215,000 (2007: £118,000) principally relating to development expenditure and purchase of software for use within the business.

Basic earnings per share were 0.42p against a loss per share of 0.11p in the prior period. At a diluted level, EPS was 0.38p against a loss of 0.11p. No dividend is payable for the period as the Group continues to invest its resources in the development of the business.

Operating Review

Packaged Applications

Sales of our packaged speech recognition and voice automation applications and associated services, covering the call centre, corporate, health and public sector, increased by 4% to £3.02m.

This increase in revenues is the result of growth in the Group's overall client base, with the average number of applications under contract increasing 2% during the interim period to 536 (2007: 527), together with increases in service rates. The proportion of recurring revenues has increased by 6 percentage points to 60% providing the Group with good visibility of earnings.

We continue to see a number of growth opportunities in this part of the business, particularly in the public and health sectors, where there is a drive to increase customer service and efficiency, whilst controlling costs. For example, Telephonetics' mobility application helped Hertfordshire County Council implement a property portfolio rationalisation by allowing flexible working; and Telephonetics' payment application was purchased by Reigate and Banstead Borough Council to allow customers to make payments 24 hours a day.

As the market leader in the secondary healthcare market, and with over 100 NHS Trusts now using Telephonetics' products, we continue to launch new products to improve customer service and efficiency. During the period we launched two new generation products: "Result 2.0" for patient results and "Remind+" to remind patients about appointments. Key new contract wins include providing applications to Mid Yorkshire NHS Trust, South Tyneside NHS Foundation Trust and the Department of Health.

We continue to increase our presence in the public sector, including the key housing association sector, and are now working with around 50 local government sites and 5 housing associations to meet their efficiency targets. We have won a number of significant contracts in the period with London Quadrant Housing and Midlothian Council and have a range of new applications in development specifically for this sector.

Our partnership agreement with ONI and our integration agreement with Lagan, announced after the period end, both provide further opportunities for Telephonetics in the public sector. The agreement with ONI, a Cisco Gold Certified Partner, will offer the Telephonetics VIP portfolio of automation solutions to customers looking to deploy speech recognition automation on Cisco's IP telephony platform. The integration with Lagan, a leader in CRM technology, gives Telephonetics increased access to the public sector and greater opportunity for providing solutions to it through the combination of Lagan's CRM technology and Telephonetics' call centre technology and payment applications.

Telephonetics continues to make early stage inroads into the corporate and call centre market. Siemens has now adopted Telephonetics' product and the initial interest from the private sector has been encouraging. The migration of our scalable multi-site technology from our MovieLINE[®] platform across to our packaged application suite will allow us to target much larger potential opportunities.

Managed Services

Managed services revenues, which are principally derived from our MovieLINE[®] product used by 80% of the UK's major multiplex cinemas, decreased by 15% to £1.59m (2007: £1.88m). The decrease in revenues was a result of lower call volumes year on year reflecting a continuing trend towards internet ticket bookings and a lack of blockbuster films in the period.

The Board is continuing to explore alternative strategies to develop further our position in the managed service market in light of the Group's existing position, capabilities and talent in delivering large scale solutions.

Research & Development

The Group continues to invest in its product development with total development expenditure including capitalised amounts of £370,000 in the last six months (2007: £410,000).

The Group is undertaking significant investment in enhancing its market leading Automatic Call Distribution product ('ACD') to fully leverage its broad portfolio of packaged speech and telephony applications, including integrations with leading CRM platforms.

Sales & Marketing costs

Expenditure on sales and marketing decreased by £290,000 to £1.26m from £1.55m due to timing differences following the departure of two senior executives who were not immediately replaced.

General and administrative expenses

On 2 April 2008, the Group announced that, after due diligence and discussions with management, it had ended offer talks with Eckoh Plc. The Group incurred £50,000 of advisor fees in relation to reviewing a possible offer.

In May 2008, the Group reorganised its leasehold property and terminated various leases earlier than expected. As a result £79,000 of property provisions were surplus and credited back to the income statement as a restructuring credit.

General and administrative expenses before restructuring costs were down 3% to £921,000 as the Group benefited from the full year impact of last year's productivity focus.

Outlook

The Board of Telephonetics continues to be confident about future prospects for the Company as it continues its strategy of investing into the speech applications market place where there is growing demand for Telephonetics' products, particularly from the public sector. With a healthy pipeline of new business and an increasing range of solutions that promote efficiency both in terms of customer service and cost control, Telephonetics expects to make good progress in the second half of the year.

Unaudited consolidated income statement for the six months ended 31 May 2008

	Note	6 months ended 31 May 2008 £'000	6 months ended 31 May 2007 £'000	Year ended 30 Nov 2007 £'000
Revenue	3	4,616	4,800	9,667
Cost of sales		(1,752)	(1,962)	(3,846)
Gross profit		2,864	2,838	5,821
Administrative expenses	4	(2,371)	(3,011)	(5,821)
Profit/ (loss) from operations		493	(173)	-
Profit/ (loss) from operations analysed as:				
Profit/ (loss) from operations before restructuring credit/ (costs)		414	(26)	291
Restructuring credit/ (costs)	5	79	(147)	(291)
		493	(173)	-
Finance costs		(1)	(1)	(3)
Finance income		104	55	142
Profit/ (loss) before tax		596	(119)	139
Tax (expense)/ credit		(139)	3	42
Profit/ (loss) for the period		457	(116)	181
Earnings/ (loss) per share				
Basic - pence	6	0.42	(0.11)	0.17
Diluted - pence	6	0.38	(0.11)	0.16

Unaudited consolidated balance sheet as at 31 May 2008

	31 May 2008 £'000	31 May 2007 £'000	30 Nov 2007 £'000
Assets			
Non-current assets			
Intangible assets	11,004	10,949	10,940
Property, plant & equipment	316	408	334
Deferred tax assets	70	18	73
Total non-current assets	11,390	11,375	11,347
Current assets			
Inventories	235	299	249
Trade & other receivables	2,340	2,730	2,245
Corporation tax receivable	-	49	33
Cash & cash equivalents	4,665	3,308	4,028
Total current assets	7,240	6,386	6,555
Total assets	18,630	17,761	17,902
Liabilities			
Current liabilities			
Trade & other payables	(4,484)	(4,528)	(4,322)
Corporation tax liability	(163)	-	-
Provisions	-	(60)	(60)
Total current liabilities	(4,647)	(4,588)	(4,382)
Non-current liabilities			
Provisions	(61)	(163)	(125)
Total non-current liabilities	(61)	(163)	(125)
Total liabilities	(4,708)	(4,751)	(4,507)
Net assets	13,922	13,010	13,395
Capital & reserves			
Share capital	1,090	1,090	1,090
Share premium	6,803	6,802	6,802
Reverse acquisition reserve	506	506	506
Merger reserve	4,951	4,951	4,951
Retained earnings/ (deficit)	572	(339)	46
Total equity	13,922	13,010	13,395

Unaudited consolidated statement of changes in equity as at 31 May 2008

	Share capital	Share premium	Reverse acquisition reserve	Merger reserve	Retained (deficit)/ earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 December 2006	1,083	6,798	506	4,951	(308)	13,030
Loss for the period	-	-	-	-	(115)	(115)
Total recognised income and expense	-	-	-	-	(115)	(115)
Share based payment credit	-	-	-	-	85	85
Deferred tax charge	-	-	-	-	(1)	(1)
Issue of share capital	7	4	-	-	-	11
Balance at 31 May 2007	1,090	6,802	506	4,951	(339)	13,010
Balance at 1 June 2007	1,090	6,802	506	4,951	(339)	13,010
Profit for the period	-	-	-	-	299	299
Total recognised income and expense	-	-	-	-	299	299
Share based payment credit	-	-	-	-	88	88
Deferred tax charge	-	-	-	-	(2)	(2)
Balance at 30 November 2007	1,090	6,802	506	4,951	46	13,395
Balance at 1 December 2007	1,090	6,802	506	4,951	46	13,395
Profit for the period	-	-	-	-	457	457
Total recognised income and expense	-	-	-	-	457	457
Share based payment credit	-	-	-	-	69	69
Issue of share capital	-	1	-	-	-	1
Balance at 31 May 2008	1,090	6,803	506	4,951	572	13,922

Unaudited consolidated cash flow statement for the six months ended 31 May 2008

	6 months ended 31 May 2008 £'000	6 months ended 31 May 2007 £'000	Year ended 30 Nov 2007 £'000
Cash flow from operating activities			
Profit/ (loss) for the period	457	(116)	181
Adjustments for:			
Depreciation	81	142	259
Amortisation	83	83	170
Finance income	1	1	3
Finance costs	(104)	(55)	(142)
Share-based payment expense	69	85	173
Income tax expense/ (credit)	139	(3)	(42)
Operating cash flows before movements in working capital & provisions	726	137	601
Decrease/ (increase) in inventories	18	(10)	42
Increase in trade and other receivables	(95)	(989)	(504)
Increase in trade and other payables	162	1,088	882
(Decrease)/ increase in provisions	(123)	136	98
Cash generated from operations	688	363	1,119
Interest paid	(1)	(1)	(3)
Interest received	104	55	142
Corporation tax reclaimed/ (paid)	60	(52)	(52)
Net cash flow from operating activities	851	365	1,206
Investing activities			
Purchase of property, plant & equipment	(69)	(26)	(62)
Development expenditure	(48)	(41)	(124)
Purchase of other intangible assets	(98)	(50)	(52)
Net cash used in investing activities	(215)	(118)	(238)
Financing activities			
Issue of ordinary shares	1	11	11
Net cash from financing activities	1	11	11
Net increase in cash & cash equivalents	637	259	979
Cash & cash equivalents at the beginning of the period	4,028	3,049	3,049
Cash & cash equivalents at the end of the period	4,665	3,308	4,028

Notes to the financial information for the six months ended 31 May 2008

1. Basis of preparation

Prior to 2008 the Group prepared its audited financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). For the year ended 30 November 2008 the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU ('EU IFRS'). In consequence, these interim results have been prepared using the recognition and measurement principles of EU IFRSs. The principal accounting policies used in preparing the interim results for the six months ended 31 May 2008 are set out below.

The transition date for the Group's application of EU IFRS is 1 December 2006 and the comparative information has, subject to the requirements and options in IFRS 1 'First-time adoption of International Financial Reporting Standards' been restated accordingly. Details of the affect of the adoption of EU IFRSs on the Group's income statement and balance sheet are given in note 7.

The financial information for the six months ended 31 May 2008, the six months ended 31 May 2007 and the year ended 30 November 2007, which has been prepared under EU IFRSs, is unreviewed and unaudited and does not constitute the Group's statutory financial statements for those periods. The comparative financial information for the year ended 30 November 2007 has, however, been derived from the statutory financial statements for that period. A copy of those financial statements, which were prepared under UK GAAP, has been delivered to the Registrar of Companies. The auditors' report on those accounts was unqualified, did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The results for the six months ended 31 May 2008 were approved by the Board on 20 August 2008 and are available on the Company's web site www.telephonetics.co.uk from 21 August 2008.

2. Accounting policies

The Group's significant accounting policies are listed below:

Basis of consolidation

The Group financial statements consolidated the financial statements of Telephonetics PLC and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the consideration paid over the fair values of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

On 7 July 2005, Telephonetics VIP Ltd acquired Telephonetics Plc (then named Leptis Magna Plc) via the reverse acquisition method. It would normally be necessary for the Group's consolidated accounts to follow the legal form of the business combination. In that case the pre-combination results would be included within the Group from 7 July 2005. However, this would portray the combination as an acquisition of Telephonetics

VIP Ltd by Telephonetics Plc, a cash shell at that time, and would, in the opinion of the Directors, fail to accurately portray the substance of the business combination. As a result the Directors adopted reverse acquisition accounting as the basis of consolidation for the acquisition of Telephonetics VIP Ltd.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of consideration paid over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

The Group provides hosted and customer installed automated speech recognition and computer telephony solutions. Revenue in respect of:

- Hosted telephony call and transaction revenues are recognised when the call or transaction has been delivered over the Group's network;
- goods and professional services are recognised when the good or services has been delivered to the customer; and
- maintenance and subscription service contracts are recognised evenly over the period in which the service is provided to the customer.

Leased assets

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

Taxation

The tax expense or credit represents the sum of the tax currently payable or receivable and deferred tax. The tax currently payable or receivable is based on taxable profit for the year.

Taxable profit differs from net profits as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability or receivable for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. The interim tax charge on underlying business performance is calculated by reference to the estimated effective rate for the full year.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the

corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arose from goodwill or from the initial recognition (other than in a business combination) of other asset and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant & equipment

Property, plant and equipment are stated at their purchase price, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost of property, plant and equipment less the estimated residual value, on a straight line basis, over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

- Fixtures, fittings and equipment 33% per annum
- Computer equipment 14%-33% per annum
- Leasehold improvements are amortised over the period of the lease.

Intangible assets

Intangible assets that meet the recognition criteria of IAS 38, "Intangible Assets" are carried at cost less amortisation and any impairment losses. Intangible assets comprise of capitalised development costs and acquired software.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Any internally-generated intangible asset arising from the Group's development projects are recognised only if all of the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Amortisation

Internally-generated intangible assets and acquired software are amortised on a straight-line basis over their useful lives, typically three years. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. An impairment loss or their subsequent reversal is recognised as an expense immediately.

Inventories

Inventories, including goods for resale and work in progress, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of goods for resale is calculated on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. In particular:

- Trade receivables do not carry any interest and are stated at their nominal values reduced by appropriate allowances for estimated irrecoverable amounts. Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the trade receivable, the amount of such provision being the difference between the carrying amount and the present value of the expected cash flows associated with the impaired receivable.
- Trade payables are not interest bearing and are stated at their nominal value.

- Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Where a leased property ceases to be used for the Group's business a provision is made for the residual lease commitments to the first break clause, together with outgoings, after taking into account estimated possible sub-let income.

A dilapidation provision for the estimated cost of restoring the Group's leased property at lease terms to the condition they were originally leased is charged to the income statement over the life of the lease.

Share-based payments

The Group issues equity-settled share based payments to certain employees and directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes or Monte Carlo models as appropriate. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Pensions

Contributions to the Group's defined contribution pension scheme and employee's personal pension plans are charged to the income statement in the year in which they become payable.

3. Analysis of revenue by solution

	6 months ended 31 May 2008 £'000	6 months ended 31 May 2007 £'000	Year ended 30 Nov 2007 £'000
Packaged Applications	3,025	2,918	5,989
Managed Services	1,591	1,882	3,678
Revenue	4,616	4,800	9,667

4. Analysis of administrative expenses

	6 months ended 31 May 2008 £'000	6 months ended 31 May 2007 £'000	Year ended 30 Nov 2007 £'000
Research & development	270	366	594
Sales & marketing	1,259	1,550	3,188
General & administration	842	1,095	2,039
Analysed as:			
General & administration before restructuring (credit)/ costs	921	948	1,748
Restructuring (credit)/ costs	(79)	147	291
	842	1,095	2,039
	2,371	3,011	5,821

5. Restructuring costs

The Company completed the final integration restructuring of Voice Integrated Products Limited in 2007 resulting in a charge for that year of £291,000. That expense consisted of a provision of £147,000 for vacant premises charged in the period ended 31 May 2007 and £144,000 of redundancy costs charged in the second half of the year ended 30 November 2007. In May 2008 the Group reorganised its leasehold property and terminated various leases earlier than expected, as a result £79,000 of the vacant property provision was surplus and has been credited back to the income statement in the period ended 31 May 2008.

6. Earnings Per Share

The table below sets out the number of shares used to calculate the earnings per share figures:

	6 months ended 31 May 2008 Number	6 months ended 31 May 2007 Number	Year ended 30 Nov 2007 Number
Shares used for calculation of basic and diluted earnings per share	108,995,917	108,380,259	108,760,169
Exercise of share options	9,804,119	6,716,379	8,364,080
Shares used in calculation of diluted and adjusted earnings per share	118,800,036	115,096,638	117,124,249

7. Explanation of transition to IFRS

The accounting policies in note 2 have been applied in preparing the consolidated interim financial statements for the six months ended 31 May 2008, the comparative information for the six months ended 31 May 2007 and the year ended 30 November 2007 and the preparation of the opening IFRS balance sheet at 1 December 2006 (the transition date).

In preparing its opening balance sheet and comparative information, for the six months ended 31 May 2007 and the year ended 30 November 2007, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

An explanation of the principal changes in accounting policies and how the transition from UK GAAP to IFRS has affected the Group's income statement and balance sheet is set out in the tables and accompanying notes below:

Goodwill

UK GAAP requires that amortisation of goodwill is charged to the profit and loss account on a straight line basis over the useful economic life of the intangible asset. Under UK GAAP, the goodwill arising on the acquisitions of Voice Integrated Products Limited was being amortised over 10 years.

IFRS 3 requires that goodwill arising from business combinations should not be amortised but tested annually for impairment. As permitted by IFRS 1 the Group has decided to apply IFRS 3 prospectively from the date of transition (1 December 2006) and has elected not to restate previous business combinations.

Under IAS 36 remaining goodwill is tested annually for impairment, unless there is any indication of impairment before that time.

The impact of this change has been to reverse amortisation charged in the six months ended 31 May 2007 and year ended 30 November 2007 relating to goodwill on the balance sheet at the date of transition, resulting in a credit to income of £550,000 and £1,099,000 respectively and a corresponding increase in intangible fixed assets.

Employee benefits

Short term employee benefits are payable within one year after the end of the period in which the services have been rendered and in accordance with IAS 19 employee holiday pay owing at the end of a financial period is now being recorded as a current liability.

The impact of recording a holiday pay accrual has been to record an accrual of £59,000, £86,000 and £99,000 within trade and other payables, together with an associated deferred tax asset of £18,000, £26,000 and £28,000, in the 1 December 2006, 31 May 2007 and 30 November 2007 balance sheets respectively.

This has resulted in a charge of £9,000 to cost of sales and £19,000 to operating expenses together with a deferred tax credit of £8,000 for the six months ended 31 May 2007 and £10,000 to cost of sales and £30,000 to operating expenses together with a deferred tax credit of £10,000 for the six months ended 30 November 2007.

Deferred tax

Under IFRS deferred tax is provided in full using the balance sheet liability method, on the basis of temporary differences between the carrying value of assets and liabilities in the balance sheet and their tax bases used in the computation of taxable profit. Deferred tax assets are recognised only to the extent that it is probable that they can be utilised against future taxable profits. The principal items that result in adjustments to deferred tax between UK GAAP and IFRS are in respect of share based payments. The Company has taken advantage of the transitional relief in relation to share options granted pre 7 November 2002 and has not restated them under IFRS 2. A deferred tax asset has nonetheless been recognised relating to these options.

The impact on the balance sheets at 1 December 2006, 31 May 2007 and 30 November 2007 is to record a deferred tax asset of £8,000, £7,000 and £6,000. The utilisation of this asset of £1,000 and £2,000 for the six month period ending 31 May 2007 and year ended 30 November 2007 has been charged to retained earnings.

Computer Software

Under UK GAAP, purchased software application licenses and internally developed software which was not integral to hardware but was necessary for bringing the Group's computer hardware in to operation was classified as tangible fixed assets. Such licenses or internally developed software are classified as intangible assets under IAS 16 and IAS 38.

There is no net impact on the income statement as a result of this reclassification, however, there has been a reclassification of amounts recorded as depreciation on these assets to amortisation charges. The impact on the balance sheets at 1 December 2006, 31 May 2007 and 30 November 2007 has been an increase in intangible assets of £343,000, £313,000 and £252,000 and a matching decrease property, plant & equipment.

IFRS reconciliation of income statement for the six months ended 31 May 2007

	UK GAAP £'000	Reverse goodwill amortisation £'000	Holiday pay accrual £'000	EU IFRS £'000
Revenue	4,800	-	-	4,800
Cost of sales	(1,953)	-	(9)	(1,962)
Gross profit	2,847	-	(9)	2,838
Administrative expenses	(3,542)	550	(19)	(3,011)
Loss from operations	(695)	550	(28)	(173)
Finance costs	(1)	-	-	(1)
Finance income	55	-	-	55
Loss before tax	(641)	550	(28)	(119)
Tax (expense)/ credit	(4)	-	8	4
Loss after tax	(645)	550	(20)	(115)

IFRS reconciliation of income statement for the year ended 30 November 2007

	UK GAAP £'000	Reverse goodwill amortisation £'000	Holiday pay accrual £'000	EU I FRS £'000
Revenue	9,667	-	-	9,667
Cost of sales	(3,836)	-	(10)	(3,846)
Gross profit	5,831	-	(10)	5,821
Administrative expenses	(6,890)	1,099	(30)	(5,821)
(Loss)/ Profit from operations	(1,059)	1,099	(40)	-
Finance costs	(3)	-	-	(3)
Finance income	142	-	-	142
(Loss)/ Profit before tax	(920)	1,099	(40)	139
Tax credit	35	-	10	45
(Loss)/ Profit after tax	(885)	1,099	(30)	184

IFRS reconciliation of balance sheet as at 1 December 2006 – the transition date

	UK GAAP £'000	Reclassif- ication of software £'000	Holiday pay accrual £'000	Deferred tax on IFRS 2 transit- ional relief £'000	EU IFRS £'000
Assets					
Non-current assets					
Intangible assets	10,598	(343)	-	-	10,941
Property, plant & equipment	868	(343)	-	-	525
Deferred tax asset	-	-	-	3	3
Total non-current assets	11,466	-	-	3	11,469
Current assets					
Inventories	289	-	-	-	289
Trade & other receivables	1,741	-	-	-	1,741
Corporation tax receivable	8	-	-	-	8
Cash & cash equivalents	3,049	-	-	-	3,049
Total current assets	5,087	-	-	-	5,087
Total assets	16,553	-	-	3	16,556
Liabilities					
Current liabilities					
Trade & other payables	(3,381)	-	(59)	-	(3,440)
Total current liabilities	(3,381)	-	(59)	-	(3,440)
Non-current liabilities					
Provisions	(87)	-	-	-	(87)
Deferred tax liability	(23)	-	18	5	-
Total non-current liabilities	(110)	-	18	5	(87)
Total liabilities	(3,491)	-	(41)	5	(3,527)
Net assets	13,062	-	(41)	8	13,029
Capital & reserves					
Share capital	1,083	-	-	-	1,083
Share premium	6,798	-	-	-	6,798
Reverse acquisition reserve	506	-	-	-	506
Merger reserve	4,951	-	-	-	4,951
Retained earnings	(276)	-	(41)	8	(309)
Total equity	13,062	-	(41)	8	13,029

IFRS reconciliation of balance sheet as at 31 May 2007

	UK GAAP £'000	Reversal of goodwill amortis- ation £'000	Reclassif -ication of software £'000	Holiday pay accrual £'000	Deferred tax on IFRS 2 transit- ional relief £'000	EU IFRS £'000
Assets						
Non-current assets						
Intangible assets	10,086	550	313	-	-	10,949
Property, plant & equipment	721	-	(313)	-	-	408
Deferred tax assets	-	-	-	11	7	18
Total non-current assets	10,807	550	-	11	7	11,375
Current assets						
Inventories	299	-	-	-	-	299
Trade & other receivables	2,730	-	-	-	-	2,730
Corporation tax receivable	49	-	-	-	-	49
Cash & cash equivalents	3,308	-	-	-	-	3,308
Total current assets	6,386	-	-	-	-	6,386
Total assets	17,193	550	-	11	7	17,761
Liabilities						
Current liabilities						
Trade & other payables	(4,442)	-	-	(86)	-	(4,528)
Provisions	(60)	-	-	-	-	(60)
Total current liabilities	(4,502)	-	-	(86)	-	(4,588)
Non-current liabilities						
Provisions	(163)	-	-	-	-	(163)
Deferred tax liability	(15)	-	-	15	-	-
Total non-current liabilities	(178)	-	-	15	-	(163)
Total liabilities	(4,680)	-	-	(71)	-	(4,751)
Net assets	12,513	550	-	(60)	7	13,010
Capital & reserves						
Share capital	1,090	-	-	-	-	1,090
Share premium	6,802	-	-	-	-	6,802
Reverse acq'n. reserve	506	-	-	-	-	506
Merger reserve	4,951	-	-	-	-	4,951
Retained earnings	(836)	550	-	(60)	7	(339)
Total equity	12,513	550	-	(60)	7	13,010

IFRS reconciliation of balance sheet as at 30 November 2007

	UK GAAP £'000	Reversal of goodwill amortis- ation £'000	Reclassif -ication of software £'000	Holiday pay accrual £'000	Deferred tax on IFRS 2 transit- ional relief £'000	EU IFRS £'000
Assets						
Non-current assets						
Intangible assets	9,589	1,099	252	-	-	10,940
Property, plant & equipment	586	-	(252)	-	-	334
Deferred tax assets	39	-	-	28	6	73
Total non-current assets	10,214	1,099	-	28	6	11,347
Current assets						
Inventories	249	-	-	-	-	249
Trade & other receivables	2,245	-	-	-	-	2,245
Corporation tax receivable	33	-	-	-	-	33
Cash & cash equivalents	4,028	-	-	-	-	4,028
Total current assets	6,555	-	-	-	-	6,555
Total assets	16,769	1,099	-	28	6	17,902
Liabilities						
Current liabilities						
Trade & other payables	(4,223)	-	-	(99)	-	(4,322)
Corporation tax liability	-	-	-	-	-	-
Provisions	(60)	-	-	-	-	(60)
Total current liabilities	(4,283)	-	-	(99)	-	(4,382)
Non-current liabilities						
Provisions	(125)	-	-	-	-	(125)
Total non-current liabilities	(125)	-	-	-	-	(125)
Total liabilities	(4,408)	-	-	(99)	-	(4,507)
Net assets	12,361	1,099	-	(71)	6	13,395
Capital & reserves						
Share capital	1,090	-	-	-	-	1,090
Share premium	6,802	-	-	-	-	6,802
Reverse acq'n. reserve	506	-	-	-	-	506
Merger reserve	4,951	-	-	-	-	4,951
Retained earnings	(988)	1,099	-	(71)	6	46
Total equity	12,361	1,099	-	(71)	6	13,395