



**Press Release**

**12 March 2008**

**Ascribe plc**

("Ascribe" or "the Group")

**Interim results for the six months ended 31 December 2007**

Ascribe plc (AIM:ASP), the health IT group, reports its interim results for the six months ended 31 December 2007.

**Basis of Reporting**

Results reported under International Financial Reporting Standards ("IFRS") for the first time; comparatives have been restated.

**Highlights**

- Record capital order book of £3.1 m (up £0.9m on 2006), supports full year expectations
- Turnover down 5.6% to £7.1 m (2006: £7.5m)
- Recurring revenue 71% of total turnover (2006: 66%)
- Adjusted\* operating profit of £1.0m (2006: £1.8m)
- Adjusted\* basic EPS of 0.70 pence (2006: 1.28 pence)
- Investment into sales, operations and development staffing to meet anticipated order upturn
- Research and development expenditure (gross of capitalisation) increased 18% to £1.7m (2006: £1.5m)

\*before charges for amortisation of acquired intangible assets and share-based payments

Stephen Critchlow, Executive Chairman of Ascribe commented: "I am pleased with the Group's performance over the past six months, although the headline figures do obscure our rate of progress. Recognising that the second half bias in our business, due to the NHS' April year end, has increased, we have built our order book to a record level and we continue to increase our market share. Anticipating the increased pipeline, we have developed new products and have grown our sales and development teams. The Board remains confident that we can deliver our full year expectations and I look forward to updating the market in September."

**- Ends -**

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## **Executive Chairman's Statement**

I am delighted with the Group's performance over the past six months. We have built our capital order book to a record level. Orders for new implementations, excluding recurring maintenance revenue which is also committed, stand at £3.1m. The delivery issues from the tail end of last year have been resolved giving us increased confidence that we will deliver the market's full year profit expectations. We continue to increase our market share and have written, tested and installed multiple web based solutions on our new software platform. The Group has maintained its investment in its development and operations capability in response to the continued growth that is widely expected in the US\$100bn world-wide health informatics market and to ensure delivery of the order book.

In response to the growing pipeline, we have expanded our sales and development teams and developed new products. These new products have enhanced our integrated clinical workstation to allow interoperability between our own applications and the national initiatives in each country in which we trade. Microsoft has supported us in this development using their latest technology.

Ascribe is seeing a significant uplift in interest within the UK as the National Programme for IT "NPfIT" continues to move officially towards local decision making. The published move to local procurement in December led to a significant increase in the number of orders, including:

- 48% increase in first-half of new capital orders of Pharmacy solutions
- 43% increase in Emergency Care orders
- 43% increase in Electronic Patient Record orders including orders for "Choose & Book" and "18 Week Wait" functionality

Orders for our customers within Mental Health are lower than last year when we achieved a single £1.7m order which is still being implemented to plan.

I am encouraged by the quality and depth of our order pipeline and from the development of new products that will stimulate further solutions for existing and new

customers. Since its acquisition in October, Scorpio Information Systems Limited has been successfully and fully integrated into the Group.

Both parties have benefited from the cross selling opportunities of a wider customer network and we have already achieved nearly £1m of orders coming from the sale of Ascribe solutions to the Scorpio user base. In addition, Scorpio has benefited from being part of a larger organisation, which provides reassurance for prospective and existing customers as well as access to the wider customer contacts and resources of the Ascribe group.

By having a common platform from which we offer all of our solutions, we are able to increase the offering to our customers, who will often save the cost of investment in the solution within the first year of its use. Our customers are also reporting considerable improvements in patient safety, which gives them further incentive to work with us as their preferred software provider.

We have a large pipeline of existing customers who have a single departmental product who are now looking to buy the complete integrated package. We received our first substantial order of this kind in December. This marks a significant change in our business. Single departmental product sales are worth between £20,000 and £200,000 whereas the complete integrated solution will exceed £1m per customer. Some of our other NHS customers, to whom we have already supplied integrated packages, already see us as their sole supplier - we have since received further significant orders from these Trusts who are expanding to take the whole suite of our applications.

Our customer pipeline does not yet include any benefits that may arise from the publishing of the NPfIT's ASCC ("Alternative Supplier Catalogue") due in April 2008.

A large component of our order book will be delivered in the second half of our financial year which, combined with targeted investment in key staff during the first half, means the sales and profitability for the year will be skewed to the second half. The reported results are in line with our expectations, leaving us confident in the Group's prospects for the year and its ability to deliver value to all of its stakeholders.

## **Financial results**

These results are the first that the Group has reported under International Financial Reporting Standards (IFRS) and, consequently, the comparative figures in respect of the six months ended 31 December 2006 have been restated.

In the six months ended 31 December 2007 sales were £7.1m (2006: £7.5m). An excellent order intake in December meant that the actual order book taken into 2008 was at a record high.

Long-term maintenance contract revenues continue to underpin the business comprising 71% of total turnover for the six months ended 31 December 2007 (2006: 66%). Sales from markets other than the UK and Republic of Ireland comprised 17% (2006: 16%) of first half sales.

Operating profit in the six months ended 31 December 2007 was £0.9m (2006: £1.8m)

The Group continues to invest both in the development of new software and in the enhancement of existing software that is available to clinicians in order to improve patient care, increase operational efficiencies, generate customer cost savings and improve functionality. The Board believes that this will strengthen the Group's ability to grow new sales and profit in future periods.

Basic earnings per share for the period was 0.66 pence (2006: 1.24 pence).

## **Balance Sheet and Funding**

At 31 December 2007 the Group had net assets of £13.3m (2006: £11.0m).

At the same date the Group's net debt was £4.1m (2006: £3.9m). In line with previous years the Group spends more cash in the first half of the year and is highly cash generative in the second half. This is due to the high level of annual maintenance contracts which are invoiced in April - the start of the NHS fiscal year.

## **Pharmacy**

Success in Hospital Pharmacy has come from sales of UK Medicine Management solutions with new web-based technologies being delivered successfully to sites in the UK and Asia Pacific. These new technologies can act as an incentive for healthcare providers to offer a range of brand new integrated services such as 'Electronic Prescribing' and 'Robotic Dispensing', designed to reduce medical risks to patients and thereby improve the safety standards offered by professional healthcare clinicians and organisations.

## **Mental Health & Community Care**

Our Community Healthcare solutions business has performed satisfactorily in the first half of this financial year with additional revenues coming from software upgrades and requested increases in functionality and capacity.

## **Primary & Unscheduled Care**

Ascribe's Emergency Department software, which delivers patient tracking and care management systems into A&E and Unscheduled Care departments has strengthened its market base in the UK and overseas. Its success stems from the system's ability to meet clinician's needs and also provide departmental reporting allowing Trusts to claim effectively for their 'payment by results' income. Our installed sites report that they can reduce costs and recoup revenues that more than offset the system's cost, within the first year of use.

## **Electronic Patient Records**

Ascribe is seeing increased interest in combining our solutions at single sites. This enables healthcare providers to achieve additional improvements to patient safety and compile more comprehensive electronic health care records for their patients. A recent order has seen a single site request a whole suite of Ascribe's systems for a number of its departments.

## **Acquisitions**

On 22 October 2007, Ascribe acquired 100% of the share capital of Scorpio Information Systems Limited for a total consideration of £1.31m (£0.88m in cash and £0.43m by the issue of 1.04 million new ordinary shares). The business, based in Hythe, Southampton, is a supplier of clinical information management systems to the NHS. The Group, which had £0.62m of cash at acquisition, reported turnover of £0.52m and an operating profit of £0.24m in its most recent statutory accounts.

## **Prospects**

With 60-70% of our annual turnover coming from recurring maintenance contracts our expected revenue growth in the remainder of this year will depend on the delivery of our existing order book and of new orders that are expected in the second half. We expect double-digit percentage revenue growth for the year to June 2008 in comparison to 2007. This will be dependent on the continued sale of licences to new and existing customers together with the associated implementation revenues. We expect this new business to accrue across all our departmental and enterprise-wide solutions.

The Board would like to thank all of Ascribe's employees for their continued hard work and commitment throughout the past six months. We continue to experience significant change as we grow, expand our customer offerings and continue the integration of the acquired businesses, and I am encouraged by how far we have come in this process and how much stronger we are as an organisation as a result.

I remain confident about the outlook for the Group for the remainder of the financial year. We have never been better positioned for the medium to long term as our Group performance meets the demand coming from a move to local procurement.

Stephen Critchlow

Executive Chairman

12 March 2008

**Consolidated Income Statement**  
**Six months ended 31 December 2007**

	Notes	Six months to 31 Dec 2007 (unaudited)	Six months to 31 Dec 2006 (unaudited)	Year ended 30 June 2007 (unaudited)
		£'000	£'000	£'000
<b>Revenue</b>	<b>2</b>	<b>7,056</b>	7,474	15,313
Cost of Sales		(550)	(486)	(1,544)
<b>Gross profit</b>		<b>6,506</b>	6,988	13,769
Research and development costs		(1,278)	(1,074)	(2,036)
Amortisation of acquired intangible assets		(17)	-	-
Impairment of goodwill		-	-	(194)
Share based payments		(34)	(52)	(98)
Administration		(4,274)	(4,089)	(8,217)
<b>Operating profit before the amortisation of acquired intangibles, impairment of goodwill and share based payments</b>		<b>954</b>	1,825	3,516
<b>Operating profit</b>		<b>903</b>	1,773	3,224
Finance income		51	14	38
Finance expenses		(142)	(125)	(225)
<b>Profit before income tax</b>		<b>812</b>	1,662	3,037
Tax expense		(49)	(249)	(387)
<b>Profit for the period</b>		<b>763</b>	1,413	2,650
<b>Earnings per ordinary share</b>		<b>Pence</b>	Pence	Pence
- basic	<b>3</b>	<b>0.66</b>	1.24	2.32
- diluted	<b>3</b>	<b>0.64</b>	1.15	2.20

The results for the six month period ended 31 December 2006 and the year ended 30 June 2007 have been restated in accordance with IFRS.

## Statement of Recognised Income and Expense

### Six months ended 31 December 2007

	<b>Six months to 31 Dec 2007</b>	Six months to 31 Dec 2006	Year ended 30 June 2007
	<b>(unaudited)</b>	(unaudited)	(unaudited)
	<b>£'000</b>	£'000	£'000
Currency translation differences	<b>(22)</b>	52	(12)
<b>Net income recognised directly in equity</b>	<b>(22)</b>	52	(12)
Profit for the period	<b>763</b>	1,413	2,650
<b>Total income recognised for the period</b>	<b>741</b>	1,465	2,638

The results for the six month period ended 31 December 2006 and the year ended 30 June 2007 have been restated in accordance with IFRS.

## Consolidated Balance Sheet

	At 31 Dec 2007 (unaudited) £'000	At 31 Dec 2006 (unaudited) £'000	At 30 Jun 2007 (unaudited) £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	741	246	507
Goodwill	17,823	18,961	17,443
Software and customer contracts	592	-	-
Development costs	1,155	386	714
	<b>20,311</b>	<b>19,593</b>	<b>18,664</b>
<b>Current assets</b>			
Trade and other receivables	4 3,787	3,970	3,063
Deferred income tax asset	-	-	12
Cash and cash equivalents	-	155	4,190
	<b>3,787</b>	<b>4,125</b>	<b>7,265</b>
<b>Total assets</b>	<b>24,098</b>	<b>23,718</b>	<b>25,929</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	5 (4,893)	(4,996)	(8,287)
Current income tax liabilities	(133)	(676)	(306)
Borrowings	(1,804)	(1,657)	(700)
Provisions and other liabilities	(1,160)	(160)	(1,160)
	<b>(7,990)</b>	<b>(7,489)</b>	<b>(10,453)</b>
<b>Non-current liabilities</b>			
Borrowings	(2,345)	(2,382)	(2,724)
Provisions and other liabilities	(500)	(2,880)	(500)
	<b>(2,845)</b>	<b>(5,262)</b>	<b>(3,224)</b>
<b>Total liabilities</b>	<b>(10,835)</b>	<b>(12,751)</b>	<b>(13,677)</b>
<b>NET ASSETS</b>	<b>13,263</b>	<b>10,967</b>	<b>12,252</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	6 1,174	1,142	1,143
Shares to be issued	-	675	650
Share premium account	10,273	9,182	9,220
Merger reserve	561	561	561
Retained earnings	1,255	(593)	678
<b>TOTAL EQUITY</b>	<b>13,263</b>	<b>10,967</b>	<b>12,252</b>

The figures as at 31 December 2006 and 30 June 2007 have been restated in accordance with IFRS.

## Consolidated Cash Flow Statement

	<b>6 months to 31 Dec 2007 (unaudited) £'000</b>	6 months to 31 Dec 2006 (unaudited) £'000	Year ended 30 Jun 2007 (unaudited) £'000
<b>Cash flows from operating activities</b>			
Cash (used in)/ generated from operations	<b>(3,063)</b>	(1,917)	4,287
Interest paid	<b>(142)</b>	(46)	(225)
Income tax paid	<b>(282)</b>	(90)	(594)
Net cash (used in)/ generated by operating activities	<b>(3,487)</b>	(2,053)	3,468
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	<b>(328)</b>	(10)	(385)
Capitalised development costs	<b>(596)</b>	(265)	(788)
Acquisition of subsidiary, including expenses	<b>(956)</b>	-	(38)
Payment of deferred consideration	<b>-</b>	(850)	(850)
Cash acquired with acquisition of subsidiary	<b>615</b>	-	-
Interest received	<b>51</b>	14	38
Net cash used in investing activities	<b>(1,214)</b>	(1,111)	(2,023)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings	<b>-</b>	900	1,431
Repayment of borrowings	<b>(379)</b>	(305)	(557)
Issue of equity share capital	<b>6</b>	-	-
Dividends paid to company's shareholders	<b>(198)</b>	(148)	(148)
Net cash (used in)/ generated from financing activities	<b>(571)</b>	447	726
<b>(Decrease)/ increase in cash and cash equivalents</b>	<b>(5,272)</b>	(2,717)	2,171
Net cash and cash equivalents at start of period	<b>4,190</b>	2,031	2,031
Exchange gains and losses on cash and bank overdrafts	<b>(22)</b>	(53)	(12)
<b>Net cash and cash equivalents at end of period</b>	<b>(1,104)</b>	(739)	4,190
<b>Cash generated from operating activities</b>			
Profit before income tax	<b>812</b>	1,662	3,037
Adjustments for:			
- Depreciation	<b>94</b>	58	168
- Amortisation	<b>172</b>	-	195
- Goodwill impairment charge	<b>-</b>	-	194
- Loss on disposal of property, plant and equipment	<b>-</b>	-	4
- Share based payments	<b>34</b>	52	98
- Finance costs	<b>91</b>	111	187
Changes in working capital:			
- Trade and other receivables	<b>(707)</b>	(846)	49
- Trade and other payables	<b>(3,559)</b>	(2,954)	355
	<b>(3,063)</b>	(1,917)	4,287

## Notes

### 1. Basis of preparation

For the year ended 30 June 2007 and previous accounting periods, the Group prepared its audited full year and unaudited interim financial statements under UK Generally Accepted Accounting Principles ("UK GAAP"). From 1 July 2007, the Group is required to prepare its published financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and implemented in the UK, as well as those parts of the Companies Act 1985 that are applicable to companies reporting under IFRS. UK GAAP differs in some areas from IFRS.

Ascribe plc's transition date for the adoption of IFRS is 1 July 2006 and the company has prepared its opening IFRS balance sheet at that date.

The interim financial statements of Ascribe plc for the six months ended 30 December 2007 have been prepared in accordance with the principal accounting policies set out in Appendix 1 - these policies have been consistently applied to all periods presented. The interim financial statements have been prepared in accordance with those IFRS standards, as adopted by the EU, and IFRIC Interpretations issued and effective as at the time of issuing these interim financial statements. The IFRS standards and IFRIC Interpretations that will be applicable at 30 June 2008, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these interim financial statements.

The changes to accounting policies are explained in Appendix 2, together with a reconciliation of the balance sheets at 30 June 2006, 31 December 2006 and 30 June 2007, and of the profit and loss account for the periods to 31 December 2006 and 30 June 2007, as reported under UK GAAP to the balance sheet and income statement under IFRS, as reported in these financial statements. The note also includes a reconciliation of net assets at the date of transition.

These unaudited interim statements do not constitute statutory financial statements within the meaning of Section 240 of the Companies Act 1985. The financial statements for the year ended 30 June 2007 were prepared in accordance with UK GAAP and have been delivered to the Registrar of Companies and on which the auditors issued an unqualified audit report. The comparative figures for the year ended 30 June 2007 have been restated as highlighted in the "Basis of Preparation" note above and are an abridged version of the full financial statements

(as restated for IFRS) for that period. No financial statement will be filed for the six months ended 31 December 2007.

## 2. Segmental information

	<b>6 months to 31 Dec 2007 (unaudited) £'000</b>	6 months to 31 Dec 2006 (unaudited) £'000	Year ended 30 June 2007 (unaudited) £'000
Revenue by geography			
United Kingdom and ROI	<b>5,849</b>	6,276	13,107
Rest of the World	<b>1,207</b>	1,198	2,206
	<b>7,056</b>	7,474	15,313
Revenue by product			
Maintenance income	<b>5,005</b>	4,948	9,619
Income relating to sales of software	<b>2,051</b>	2,526	5,694
	<b>7,056</b>	7,474	15,313

## 3. Earnings per share

	<b>6 months to 31 Dec 2007 (unaudited)</b>	6 months to 31 Dec 2006 (unaudited)	Year ended 30 June 2007 (unaudited)
Adjusted profit for the period* (£'000)	<b>814</b>	1,465	2,942
Profit for the period (£'000)	<b>763</b>	1,413	2,650
Basic weighted average number of shares ('000)	<b>115,459</b>	114,179	114,250
Fully diluted weighted average number of shares ('000)	<b>119,082</b>	123,120	120,487
Earnings per share (pence) - basic	<b>0.66</b>	1.24	2.32
- diluted	<b>0.64</b>	1.15	2.20
- adjusted	<b>0.70</b>	1.28	2.58

\* Adjusted profit for the period represents the profit after taxation for the period excluding charges in relation to amortisation of acquired intangibles, impairment of goodwill and share based payments.

#### 4. Trade and other receivables

	<b>At 31 Dec 2007 (unaudited)</b>	At 31 Dec 2006 (unaudited)	At 30 Jun 2007 (unaudited)
Trade receivables	<b>2,613</b>	2,862	2,008
Amounts recoverable on contracts	<b>93</b>	93	92
Other debtors	<b>94</b>	108	12
Prepayments and accrued income	<b>987</b>	907	951
	<b>3,787</b>	3,970	3,063

#### 5. Trade and other payables

	<b>At 31 Dec 2007 (unaudited)</b>	At 31 Dec 2006 (unaudited)	At 30 Jun 2007 (unaudited)
Trade payables	<b>401</b>	536	1,245
Social security and other taxes	<b>371</b>	493	906
Other creditors	<b>87</b>	-	181
Accruals	<b>451</b>	473	327
Deferred income	<b>3,583</b>	3,494	5,628
	<b>4,893</b>	4,996	8,287

## 6. Statement of changes in Shareholders' Equity

	Share Capital (unaudited )	Shares to be Issued (unaudite d)	Share Premium Account (unaudited )	Merger Reserve (unaudited )	Retained Earnings (unaudited )	Total Equity (unaudited )
	£'000	£'000	£'000	£'000	£'000	£'000
<b>As at 1 July 2006</b>	<b>1,142</b>	<b>-</b>	<b>9,182</b>	<b>561</b>	<b>(1,910)</b>	<b>8,975</b>
Profit for the period					1,413	1,413
Share based payments change					52	52
Shares to be issued		675				675
Dividends					(148)	(148)
<b>As at 31 December 2006</b>	<b>1,142</b>	<b>675</b>	<b>9,182</b>	<b>561</b>	<b>(593)</b>	<b>10,967</b>
Profit for the period					1,237	1,237
Share based payments change					46	46
Exchange differences					(12)	(12)
Shares to be issued	1	(25)	24			-
Premium on 1p ordinary shares issued			14			14
<b>As at 1 July 2007</b>	<b>1,143</b>	<b>650</b>	<b>9,220</b>	<b>561</b>	<b>678</b>	<b>12,252</b>
Profit for the period					763	763
Share based payments change					34	34
Exchange differences					(22)	(22)
Dividends					(198)	(198)
Shares to be issued	20	(650)	630			-
Issue of new shares	11					11
Premium on 1p ordinary shares issued			423			423
<b>As at 31 December 2007</b>	<b>1,174</b>	<b>-</b>	<b>10,273</b>	<b>561</b>	<b>1,255</b>	<b>13,263</b>

## **Appendix 1**

### **Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented.

#### **1. IFRS exemptions**

As permitted by paragraph 13 of IFRS 1, "First Time Adoption of IFRS", the Group has taken advantage of an exemption and has elected not to apply IFRS 3 to the Business Combinations that took place before the date of transition to IFRS - 1 July 2006. As a result, the carrying value of goodwill at 30 June 2006 is frozen, subject to impairment reviews after then in accordance with IFRS 3.

#### **2. Basis of consolidation**

The Group financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 31 December 2007. Subsidiaries are entities over which the Group has the power to control the financial and operating policies so as to obtain benefits from its activities. The Group obtains and exercises control through voting rights.

The purchase method of accounting is used to account for the acquisition of subsidiaries by Group companies. The cost of an acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred or assumed at the date of acquisition, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of net assets acquired, the difference is recognised directly in the income statement.

#### **3. Segmental reporting**

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business

segments. Save for the geographical and product analysis of turnover set out in Note 2 to the half yearly results the Directors consider that the Group's activities constitute one class of business - healthcare informatics.

#### **4. Revenue recognition**

Turnover comprises the value of goods and services provided during the period, excluding value added tax, and includes income from licences, project implementation, installation, support, maintenance, training, consultancy and the supply of third party software and hardware. Each element of turnover is recognised when:

- i) Delivery of goods or provision of services has taken place;
- ii) There are no significant obligations remaining to be delivered; and
- iii) Collection of the amount due from the customers is reasonably assured

The supply of licences is only recognised when the software is installed and appropriate training provided. Revenue for project implementation, installation, training and consultancy is recognised proportionately as the work progresses. The supply of hardware is recognised on delivery to the customer.

For maintenance sales, only that proportion of revenue is recognised which relates to the part of the maintenance period falling within the accounting year.

Income recognised in turnover but not invoiced at the period end is recorded in prepayments and accrued income in debtors. Where invoices are raised in advance of the provision of services they are recorded as deferred income in creditors.

Revenue on long-term contracts is ascertained in a manner appropriate to the stage of completion of the contract at the period end date, with due regard to anticipated future costs. Amounts recoverable on such contracts are included within debtors. Payments on account in excess of turnover are included within creditors. Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

#### **5. Dividend distributions**

Interim dividends are recognized in the financial statements in the period in which they are paid. Final dividends are recognised in the period when shareholders right to receive payment has been established by approval at a General Meeting.

## **6. Property, plant and equipment**

All property, plant and equipment is shown at cost less accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is provided to write off the costs, less estimated residual values, of all fixed assets on a straight-line basis. It is calculated at the following rates:

- Leasehold improvements                      the lifetime of the lease
- Office equipment                                20% - 33.33% per annum
- Computer equipment                          33.33% per annum
- Motor vehicles                                  33.33% per annum

## **7. Intangible assets – goodwill**

Goodwill represents the excess of cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

## **8. Intangible assets – research and development**

Research expenditure is recognised as an expense as incurred.

Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably.

Other development expenditure is recognised as an expense as incurred.

The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Directly attributable costs include employee costs incurred on software development, together with associated overhead.

Amortisation commences in the month costs are incurred and the amortisation period is based on the period that the Group expects to derive economic benefit from the developments. This is currently estimated between 1 and 5 years.

#### **9. Intangible assets – customer contracts and relationships**

Acquired customer contracts and relationships are shown initially at fair value. Customer contracts and relationships are prudently deemed to have a finite life and are carried at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the costs of customer contracts and relationships over their estimated life.

#### **10. Intangible assets – software**

Acquired software is shown initially at fair value. Software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the costs of software over its estimated useful life.

#### **11. Trade receivables**

Trade receivables are recognised at fair value less provision for impairment. A provision for impairment is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

#### **12. Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

#### **13. Financial instruments and derivatives**

The Group's financial instruments comprise borrowings, cash and cash equivalents and other items, such as trade receivables and trade payables, that arise directly from its operations. The

main purpose of these financial instruments is to provide working capital and raise finance for the Group's operations.

The Group does not enter into derivative transactions such as interest rate swaps and forward contracts.

#### **14. Trade payables**

Trade payables are recognised at fair value.

#### **15. Borrowings**

Borrowings, including bank overdrafts, are recognised at fair value, net of transactions costs incurred. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least one year after the balance sheet date.

#### **16. Deferred Consideration**

The terms of an acquisition may provide that the fair value of the purchase consideration, which may be payable in cash or shares at a future date, depends on uncertain future events such as the future performance of the acquired company. The amounts recognised in the financial statements are the fair value of the deferred consideration that is reasonably expected to be paid at the balance sheet date.

#### **17. Provisions**

Provisions for liabilities are recognized when the company has a present legal or constructive obligation as a result of past events, and it is considered more likely than not that an outflow of resources will be required to settle that obligation, and the amount can be reliably estimated. Provisions are measured at the present value of the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

#### **18. Deferred taxation**

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that 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.

Deferred tax assets are regarded as recoverable and recognised in the financial statements when, on the basis of available evidence, it is more likely than not that there will be suitable taxable profits from which the future reversal of the timing differences can be deducted. The recoverability of tax losses is assessed by reference to forecasts which have been prepared and approved by the Board. The deferred tax assets and liabilities are not discounted.

### **19. Foreign currency transactions**

Transactions in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated to sterling with the rate of exchange ruling at the balance sheet date, or at the contracted rate when covered by a forward exchange contract. Differences on exchange arising from the retranslation of the opening net investment in subsidiary undertakings are taken to reserves and reported in the statement of recognised gains and losses. All other foreign exchange differences are taken to the profit and loss account.

### **20. Operating leases**

Operating lease rentals are charged to the profit and loss account on an accruals basis over the term of the lease

### **21. Pension costs**

Contributions to staff and directors defined contribution pension schemes are charged to the profit and loss account in the period in which they become payable

### **22. Shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds of the issue.

### **23. Share based payments**

The Group issues share options as a long term incentive plan to certain employees. The fair value of the employee services received in exchange for the grant of the options is recognised

as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options at the date they are granted, excluding the impact of any non-market vesting conditions.

The fair value of the share-based payments is expensed on a straight line basis over the vesting period, based on the estimates of the shares what will eventually vest. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. Fair value is measured using the Black-Scholes model.

## **Appendix 2**

### **Explanation of transition to IFRS**

The tables below show the main impact of IFRS on:-

- a) the consolidated income statements for the year ended 30 June 2007 (date of last UK GAAP statements) and the six months ended 31 December 2006 (half year comparative period) and;
- b) the consolidated balance sheets as at 1 July 2006 (date of transition to IFRS), 30 June 2007 (date of last UK GAAP statements) and 31 December 2006 (half year comparative period).

The main areas of these financial statements impacted by the transition to IFRS are detailed below.

## Consolidated Income Statement UK GAAP to IFRS reconciliation

	Six months ended 31 December 2006				Year ended 30 June 2007			
	Previous y reported UK GAAP (unaudited ) £'000	Prior year adjustme nt (unaudited ) £'000	Adjusted UK GAAP (unaudited ) £'000	Effect of IFRS (unaudited ) £'000	IFRS (unaudited ) £'000	UK GAAP (unaudited ) £'000	Effect of IFRS (unaudited ) £'000	IFRS (unaudited ) £'000
Note								
<b>Revenue</b>	<b>7,474</b>	-	<b>7,474</b>	-	<b>7,474</b>	<b>15,313</b>	-	<b>15,313</b>
Cost of Sales	(486)	-	(486)	-	(486)	(1,544)	-	(1,544)
<b>Gross profit</b>	<b>6,988</b>	-	<b>6,988</b>	-	<b>6,988</b>	<b>13,769</b>	-	<b>13,769</b>
Research and development costs	(1,339)	265	(1,074)	-	(1,074)	(2,036)	-	(2,036)
Amortisation of acquired intangible assets	-	-	-	-	-	-	-	-
Goodwill amortisation	(771)	-	(771)	771	-	(1,536)	1,342	(194)
Share based payments	(52)	-	(52)	-	(52)	(98)	-	(98)
Other administration and general overheads	(4,089)	-	(4,089)	-	(4,089)	(8,217)	-	(8,217)
<b>Operating profit before the impairment of goodwill and share based payments</b>	<b>1,560</b>	<b>265</b>	<b>1,825</b>	-	<b>1,825</b>	<b>3,516</b>	-	<b>3,516</b>
<b>Operating profit</b>	<b>737</b>	<b>265</b>	<b>1,002</b>	<b>771</b>	<b>1,773</b>	<b>1,882</b>	<b>1,342</b>	<b>3,224</b>
Finance income	14	-	14	-	14	38	-	38
Finance expenses	(125)	-	(125)	-	(125)	(225)	-	(225)
<b>Profit before income tax</b>	<b>626</b>	<b>265</b>	<b>891</b>	<b>771</b>	<b>1,662</b>	<b>1,695</b>	<b>1,342</b>	<b>3,037</b>
Tax credit/ (expense)	(239)	-	(239)	(10)	(249)	(387)	-	(387)
<b>Profit for the period</b>	<b>387</b>	<b>265</b>	<b>652</b>	<b>761</b>	<b>1,413</b>	<b>1,308</b>	<b>1,342</b>	<b>2,650</b>

## Consolidated Balance Sheet UK GAAP to IFRS reconciliation

	Note	At 31 December 2006				At 30 June 2007			At 30 June 2006			
		Previou sly reporte d UK GAAP	Prior year adjustm ent	Adjusted UK GAAP	Effect of IFRS	IFRS	UK GAAP	Effect of IFRS	IFRS	UK GAAP	Effect of IFRS	IFRS
		(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000	(unaudit ed) £'000
<b>ASSETS</b>												
<b>Non-current assets</b>												
Property, plant and equipment		246	-	246	-	246	507	-	507	294	-	294
Goodwill	iii)	18,190	--	18,190	771	18,961	17,235	208	17,443	18,961	-	18,961
Software and customer relationships		-	-	-	-	-	-	-	-	-	-	-
Development costs	i)	-	386	386	-	386	714	-	714	121	-	121
		<u>18,436</u>	<u>386</u>	<u>18,822</u>	<u>771</u>	<u>19,593</u>	<u>18,456</u>	<u>208</u>	<u>18,664</u>	<u>19,376</u>	<u>-</u>	<u>19,376</u>
<b>Current assets</b>												
Trade and other receivables		3,970	-	3,970	-	3,970	3,063	-	3,063	3,124	-	3,124
Deferred income tax asset		-	-	-	-	-	12	-	12	-	-	-
Cash and cash equivalents		155	-	155	-	155	4,190	-	4,190	3,160	-	3,160
		<u>4,125</u>	<u>-</u>	<u>4,125</u>	<u>-</u>	<u>4,125</u>	<u>7,265</u>	<u>-</u>	<u>7,265</u>	<u>6,284</u>	<u>-</u>	<u>6,284</u>
<b>LIABILITIES</b>												
<b>Current liabilities</b>												
Trade and other payables		(4,996)	-	(4,996)	-	(4,996)	(8,287)	-	(8,287)	(7,932)	-	(7,932)
Current income tax liabilities	iv)	(666)	-	(666)	(10)	(676)	(306)	-	(306)	(510)	-	(510)
Borrowings		(1,657)	-	(1,657)	-	(1,657)	(700)	-	(700)	(1,888)	-	(1,888)
Provisions and other liabilities	ii) & v)	(150)	150	-	(160)	(160)	(1,000)	(160)	(1,160)	(1,000)	(160)	(1,160)
		<u>(7,469)</u>	<u>150</u>	<u>(7,319)</u>	<u>(170)</u>	<u>(7,489)</u>	<u>(10,293)</u>	<u>(160)</u>	<u>(10,453)</u>	<u>(11,330)</u>	<u>(160)</u>	<u>(11,490)</u>
<b>Non-current liabilities</b>												
Borrowings		(2,382)	-	(2,382)	-	(2,382)	(2,724)	-	(2,724)	(1,791)	-	(1,791)
Provisions and other liabilities	ii)	(1,250)	(1,630)	(2,880)	-	(2,880)	(500)	-	(500)	(3,405)	-	(3,405)
		<u>(3,632)</u>	<u>(1,630)</u>	<u>(5,262)</u>	<u>-</u>	<u>(5,262)</u>	<u>(3,224)</u>	<u>-</u>	<u>(3,224)</u>	<u>(5,196)</u>	<u>-</u>	<u>(5,196)</u>
<b>NET ASSETS</b>		<u>11,460</u>	<u>(1,094)</u>	<u>10,366</u>	<u>601</u>	<u>10,967</u>	<u>12,204</u>	<u>48</u>	<u>12,252</u>	<u>9,134</u>	<u>(160)</u>	<u>8,974</u>
<b>SHAREHOLDERS' EQUITY</b>												
Share capital		1,142	-	1,142	-	1,142	1,143	-	1,143	1,142	-	1,142
Shares to be issued	ii)	2,155	(1,480)	675	-	675	650	-	650	-	-	-
Share premium account		9,182	-	9,182	-	9,182	9,220	-	9,220	9,181	-	9,181
Merger reserve		561	-	561	-	561	561	-	561	561	-	561
Retained earnings		(1,580)	386	(1,194)	601	(593)	630	48	678	(1,750)	(160)	(1,910)
<b>TOTAL EQUITY</b>		<u>11,460</u>	<u>(1,094)</u>	<u>10,366</u>	<u>601</u>	<u>10,967</u>	<u>12,204</u>	<u>48</u>	<u>12,252</u>	<u>9,134</u>	<u>(160)</u>	<u>8,974</u>

## **Notes**

### **Prior year adjustments**

#### **i) Capitalised development – SSAP 13**

The Group adopted the provisions of SSAP 13 when it reported its results for the year ended 30 June 2007. Development costs were recognised as intangible assets once it was probable that the product will generate future economic benefits, it is technically feasible and the costs can be measured reliably. All other development costs are expensed to the income statement as incurred. The change resulted in the reporting of development costs, after amortisation, in the balance sheet of £0.72m and £0.12m as at 30 June 2007 and 30 June 2006 respectively. The capitalised development costs in the balance sheet as at 31 December 2006, of £0.39m, have been similarly restated to reflect adoption of SSAP 13. The results for the six months ended 31 December 2006 increased by £0.26m by reversal of development costs previously expensed to the income statement under UK GAAP and to the amortisation of development expenditure.

#### **ii) Contingent deferred considerations**

The treatment of contingent deferred considerations equity was reconsidered in the financial statements for the year ended 30 June 2007 and accounts adjusted to reflect this as a liability in accordance with FRS 25. As a consequence, net assets decreased by £2,155,000 and £1,480,000 as at 30 June 2006 and 31 December 2006 respectively. There was no affect on the profits of either 2006 or 2007.

### **IFRS adjustments**

#### **iii) IFRS 3 Business Combinations**

Under UK GAAP, goodwill arising on a business combination was amortised over its estimated economic life. Under IFRS, goodwill is not amortised but is tested for impairment at least annually. The adjustments therefore relate to the write back of goodwill amortisation charged from the date of transition to IFRS less any impairment loss charged during the period.

#### **iv) IAS 12 Income Taxes**

The adjustments represent deferred tax provided as a result of the impact of conversion to IFRS. They principally result from the difference in treatment of development costs under IFRS in the financial statements with the treatment of development costs in the computation of taxable profits.

**v) IAS 19 Employee Benefits**

Under IFRS, an accrual is recognised for employee's annual holiday entitlement accrued, but not taken, at the balance sheet.

**Consolidated Cash Flow UK GAAP to IFRS reconciliation**

In relation to cash flow reporting, under UK GAAP the Group has previously reported its cashflows in accordance with FRS 1 (Revised 1996) 'Cash Flow Statements'. The objectives and principles of this standard are similar to those set out in the equivalent IFRS standard, IAS 7 'Cash Flow Statements'. Other than differences in respect of classification of cash flow items, reporting under IAS 7 has had no significant effect on the reported net cash flows for the year ended 30 June 2007 (date of last UK GAAP statements) and the six months ended 31 December 2006 (half year end comparative period).

**-ENDS-**