Eckoh

always inspiring

Preliminary Results

For the year ended 31 March 2008

Eckoh plc
Registered in England No. 3435822
Registered office: Telford House, Corner Hall, Hemel Hempstead, HP3 9HN

Eckoh plc
Preliminary Results

Highlights:

- Completion of final phase of restructuring and repositioning the Group as a specialised speech solutions business with the sale of Connection Makers trade and assets for £2.89m
- Reduced annual Group expenses by over £1m taking effect in 2008/9 following disposal of non-core activities
- Significant improvement in second half with a 63% reduction in adjusted continuing loss before tax excluding intangible asset amortisation, impairment charges and restructuring costs to £0.4m over the first half (H1 2008: £1.2m)
- Net assets as at 31 March 2008 amounted to £9.5m (2007: £8.7m), comprising £6.8m (2007: £9.6m) cash and short-term investments (equivalent to 3.4p per share (2007: 4.9p)), £3.3m future receivables from Symphony Telecom and £1.8m future receivables from Connection Makers disposal
- Profit for the year of £0.5m (2007: £8.2m)
- Profit per share of 0.24p (2007: 3.16p)
- 2 year renewal with current highest revenue generating IVR client, Trinity Mirror
- 5 year contract extension with Northern Ireland Electricity
- 3 year contract extension with TD Waterhouse

Outlook:

- Capability to deliver calls from all European markets to Eckoh's UK call platform now nearing completion
- Focus on executing opportunity presented by Speech division where significant contracts have been signed already in the new year
    - 3 year contract with the Ministry of Justice to provide fine collection services to the English and Welsh Magistrates' Courts
    - 3 year contract to provide the Traintracker Text service for National Rail Enquiries
    - 3 year renewal with the highest revenue generating Speech client, Ideal Shopping Direct
- Significant growth in Speech division expected to occur in the medium term as companies formulate their strategy to address the challenging macro-economic conditions
- Increased gross profits from both divisions along with a reduced cost base will see a far better financial performance in 2008/9 than in 2007/8

Nik Philpot, Chief Executive Officer, commented today:

"I am delighted to report that we have completed our sweeping restructuring programme that was aimed at unlocking the Group's potential as the UK´s leading provider of automated, speech-activated solutions for handling customer-support services. Demand for these solutions, located in the UK, is set to grow, as these provide a highly cost-effective, user-friendly and lower risk alternative to outsourcing abroad. With a streamlined business, proven technology and a strong balance sheet, Eckoh is now well positioned to capitalise on these medium to long term trends and looks forward to delivering shareholder value."

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Introduction

2007/8 has been a challenging year for the Group but resulted in some significant changes which have created a far stronger business going into 2008/9.

The early months of the year were dominated with dealing with the aftermath of a series of adverse stories on the use of premium rate telephony in Broadcasting. As a response Eckoh has invested significant amounts of time and money to ensure that not only are all services compliant with the PhonepayPlus code (formerly ICSTIS) but that as a business we have a clear "best practice" approach in this area. These steps have been welcomed by the clients across our business, not just in the media sector, and as a result of our action we have not only retained all of our major clients but won significant new contracts during the period. Nevertheless, the adverse publicity meant that public confidence in the sector was undoubtedly damaged, with a huge reduction in the number of calls into premium rate services and consequential reduction in our revenues. During Q4, as part of the wider cost review, we reduced the headcount in the IVR division. This action, combined with signs of recovery in call volumes should lead to a more profitable year for the division.

Whilst the Speech Solutions division operates very independently from the IVR division, the adverse publicity was undoubtedly a restricting factor in attracting new business during this period, although support from existing clients was extremely strong. However, the signs towards the end of the financial year were positive with some significant new contract wins and renewals from existing clients. The announcement today of the Ministry of Justice contract demonstrates that this trend is continuing.

With profit contributed by the Connection Makers division having reduced from £2.7m in 2004/5 to £1.3m in 2006/7, it was decided that the time was right to sell the trade of that division in order to concentrate the Group around the growing Speech division. This was achieved through two separate asset sales of the TV and Chat sub divisions for total cash consideration of £2.89m payable over two years. Removing this significant level of profitability has had an immediate impact on the overall profitability of the Group, but has meant that the restructuring is now complete and ensures the Company is now focused on the highest value activity. The transactions have also enabled us to take a hard view on central overheads within the Group and allowed us to reduce that cost going forward by over £1m per annum. This action was taken in Q4 and was achieved through a combination of factors including a reduction in staff numbers and a renegotiation of supplier contracts; the results of which will be seen in 2008/9.

The new contracts and strong pipeline in the Speech Solutions division, signs of recovery in the IVR division, increased gross margin in both divisions and the reduction in fixed costs have positioned the Group for a much improved financial performance in 2008/9.

Speech Solutions

Revenue in the Speech Solutions division fell by 3% to £6.1m (2006/7: £6.3m) while gross margin increased to 64% (2006/7: 62%) allowing gross profit to remain steady at £3.9m (2006/7: £3.9m). It is extremely unusual for the division to lose any clients, and indeed the only major client loss that has ever been experienced was when the UGC cinema chain was acquired by Cineworld and the service was moved to their incumbent provider, which had an impact on the 2007/8 numbers. Adjusting for the loss of UGC, revenue increased by 8%, with gross profit increasing by 15%.

The model in the division is to generate predictable revenue streams through securing long term contracts, which are usually 3 years or longer, and are usually underpinned by minimum revenue or transactional volume guarantees. It is also our experience that even when these contracts expire, they are generally renewed by the client due to the satisfaction with the service Eckoh provides and the ongoing cost savings that they experience. As a result the division has excellent visibility of future revenues and given the negligible churn, benefits from a layering of revenues from existing clients, supplemented with incremental contracts from new clients.

It is also common for clients to expand their offering as we have seen recently with TD

Waterhouse, who are currently piloting a phone broker service to complement its existing stock quote service and National Rail Enquiries awarding us the contract for the Traintracker text service.

The recently announced contract wins with the Ministry of Justice and National Rail Enquiries; combined with the crucial contract renewals of Ideal Shopping and TFCC have further reinforced the confidence of the Directors that the future of the Group lies with the offering from the Speech Solutions division.

Outlook for the Speech Solutions division
Over the next year there are three key factors which the Group believes will be important in generating new business.

The first is the challenging economic climate, which presents a potential opportunity for the Speech division. With many companies having to postpone significant capital expenditure investment decisions but still requiring the improvements to their customer contact services, the on-demand solution that Eckoh provides becomes an attractive option.

Secondly we are seeing an increasing trend towards on-shoring, where companies either through public pressure or poor performance, are looking to repatriate their call centre activity back to the UK. To avoid a significant increase in cost a clear alternative for these businesses is to use Eckoh's automated solutions alongside a high quality UK live agent operation. Customer feedback shows that a well designed automated service can score higher in satisfaction surveys than live agents, whether in the UK or abroad, so automation is an extremely valid choice at a cost several times lower than an agent.

Finally in recent months Eckoh have been working with BT to create a network which will allow calls to be delivered from all major European territories to the Eckoh call processing platform in the UK. This will allow the major European markets to be opened up to Eckoh without necessarily having to establish a local presence or even work with a local partner. The first significant pan-European contract is in the pipeline and if this can be secured it will provide a strong foundation for further European business which has always been a key part of Eckoh's strategy.

The recent contract wins have renewed confidence that strong growth in the Speech division will return in 2008/9. Eckoh will continue to focus on organically growing the UK business and will look to open up the European markets through the new capability that has been put in place. The Group is also looking at other indirect partnerships both in the UK and in Europe that we believe could accelerate growth in this division.

Client IVR
It has been a turbulent year for the Client IVR division against the background of adverse media publicity in relation to the use of premium rate telephony, particularly in the broadcast sector. Revenues in this division have fallen by 73% to £19.5m (2006/7: £71.3m) mainly due to a reduction in the volumes of calls coming into ITV and the closure of the ITV Play formats. Gross profits in this division were £2.1m (2006/7: £3.5m).

As described in the interim results statement, Eckoh has positioned itself as a "best practice" service provider which has significantly altered the proposition it offers to large media operations. There has been a significant investment in the compliance aspect of these services which we believe to be unrivalled by competitors. The professional nature of the service provided has also allowed Eckoh to introduce charging on a fee basis with some of the clients rather than a traditional revenue share. As a result of these steps, the gross margin earned in the second half of the financial year was 20% of revenue compared to 6% in the first half of the year, and 5% for the whole of 2006/7.

During the period, Eckoh have reviewed contracts with all IVR clients to ensure that contracts accurately reflect the trading relationship between the parties from a regulatory perspective. Significantly, Eckoh have renewed a contract for two years with the most revenue generative client within the division, Trinity Mirror, and are in the process of renewing with other major clients in the division.

Outlook for the IVR division
The near term size of the market is still somewhat uncertain although signs of recovery are becoming more evident. The competitive landscape has become less crowded with a number of smaller businesses either closing or being consolidated and Eckoh feel confident that their position as arguably the most credible provider will inevitably mean that new business opportunities will increase.

Connection Makers
As announced in the interim results, we have successfully been able to dispose of the Connection Makers division for a total of £2.89m to be fully paid by the end of 2009. It was felt that this mature operation which had been in decline was no longer complementary to the rest of the Group, with the sale enabling the management to further focus on growing the Speech Solutions division as we go into the 2008/9 financial year.

The financial results for the Connection Makers division are included within discontinued operations.

Administrative expenses
The administrative expenses in the continuing operations have reduced to £8.8m (2007: £8.9m). Whilst there has been a big reduction in the IVR revenue streams, all clients were retained during the year and the same resource was required to service them. However, since the disposal of Connection Makers, a full review of the administrative costs has been undertaken. A number of steps have been taken to significantly reduce the cost base of the business going into 2008/9 which has resulted in the fixed costs of the business reducing by over £1m with the full result of this process to be seen in 2008/9.

Balance Sheet
Eckoh continues to hold a very strong balance sheet with shareholders' equity of £9.5m (2007: £8.7m) including £6.8m of cash, cash equivalents and short-term investments (2007: £9.6m). The huge reduction of revenues has had an impact on working capital contributing to a net cash out flow of £3.7m from the reduction in trade receivables and payables.

Included in other receivables is a balance of £3.3m outstanding from Symphony Telecom Limited who were a subsidiary sold in 2006. Instalments are being paid in accordance with the loan agreement with the loan to be fully repaid by June 2010.There is also £1.8m outstanding from the sale of the trade of Connection Makers which is being paid in line with the terms agreed and with full payment due by the end of 2009.

Offer update
On 2 April, the Group announced that it had terminated discussions with Telephonetics plc however, the Board was still in discussions with various parties in which other transactions are being considered. These discussions have continued although none of the discussions at this stage contemplate an offer being made for the entire issued share capital of the Group.

Group outlook
We firmly believe the impact of the adverse publicity which affected the Group in the early part of 2007 has now dissipated and this combined with the sale of the Connection Makers business will allow us to focus on executing on the exciting opportunity presented by the Speech division. Demand for these systems, located in the UK, is set to grow, as these provide a highly cost-effective, user-friendly and lower risk alternative to outsourcing abroad. With a streamlined business, proven technology and a strong balance sheet, Eckoh is now well positioned to capitalise on these medium to long term trends and looks forward to delivering shareholder value.

Consolidated income statement

for the year ended 31 March 2008

	Notes	2008 audited £'000	Restated 2007 (see note 1) £'000
Continuing operations			
Revenue		**25,590**	77,575
Cost of sales		**(19,579)**	(70,206)
Gross profit		**6,011**	7,369
Administrative expenses		**(8,757)**	(8,865)
Loss from operating activities		**(2,746)**	(1,496)
Interest receivable		**569**	882
Interest payable		**-**	(1)
Loss before taxation		**(2,177)**	(615)
Taxation		**-**	-
Loss for the year from continuing operations		**(2,177)**	(615)
Discontinued operations			
Post tax profit for the year from discontinued operations		**2,647**	8,792
Profit for the year		**470**	8,177
Attributable to:			
Minority interests		**-**	(144)
Equity holders of the parent		**470**	8,321
		470	8,177
Earnings per share (pence)	4		
Basic and diluted		**0.24**	3.16
Loss per share from continuing (pence)	4		
Basic and diluted		**(1.09)**	(0.23)

Consolidated balance sheet
as at 31 March 2008

	Notes	**2008** **audited** **£'000**	2007 (see note 1) £'000
Assets			
Non-current assets			
Intangible assets		**114**	180
Property, plant and equipment		**743**	1,148
Financial assets		**-**	288
Other receivables		**3,293**	3,273
		4,150	4,889
Current assets			
Inventories		**13**	17
Trade and other receivables		**6,382**	8,644
Short-term investments		**1,530**	2,530
Cash and cash equivalents		**5,307**	7,071
		13,232	18,262
Total assets		**17,382**	23,151
Liabilities			
Current liabilities			
Trade and other payables		**(7,896)**	(13,939)
Obligations under finance leases		**(5)**	(7)
		(7,901)	(13,946)
Non-current liabilities			
Obligations under finance lease		**(2)**	-
Provisions		**(17)**	(516)
		(19)	(516)
Net assets		**9,462**	8,689
Shareholders' equity			
Share capital	5	**499**	491
Capital redemption reserve	5	**198**	198
Share premium	5	**695**	477
Currency reserve	6	**(27)**	(7)
Retained earnings	6	**8,097**	7,530
Total shareholders' equity		**9,462**	8,689

Consolidated statement of changes in equity

as at 31 March 2008

		Capital				Total		
	Share	redemption	Share	Retained	Currency	shareholders	Minority	Total
	Capital	reserve	premium	earnings	reserve	equity	interests	equity
	£’000	£’000	£’000	£’000	£’000	£’000	£’000	£’000
Balance as 1 April 2006	681	-	227	9,345	-	10,253	1,592	11,845
Profit for the period	-	-	-	8,321	-	8,321	(144)	8,177
Exchange differences	-	-	-	-	(61)	(61)	-	(61)
Disposal of subsidiary	-	-	-	-	54	54	-	54
Net income recognised directly in equity	-	-	-	-	(7)	(7)	-	(7)
Total recognised income and expense	-	-	-	8,321	(7)	8,314	(144)	8,170
Disposal of subsidiary	-	-	-	-	-	-	(1,448)	(1,394)
Share based payment charge	-	-	-	111	-	111	-	111
Shares issued under the option schemes	8	-	250	-	-	258	-	258
Share buy back and tender offer	(198)	198	-	(10,247)	-	(10,247)	-	(10,247)
Balance at 31 March 2007	491	198	477	7,530	(7)	8,689	-	8,689
Balance at 1 April 2007	491	198	477	7,530	(7)	8,689	-	8,689
Profit for the period	-	-	-	470	-	470	-	470
Exchange differences and net income recognised directly in equity	-	-	-	-	(20)	(20)	-	(20)
Total recognised income and expense	-	-	-	470	(7)	450	-	450
Share based payment charge	-	-	-	97	-	97	-	97
Shares issued under the option schemes	8	-	226	-	-	234	-	234
Shares held by Share Incentive Plan	-	-	(8)	-	-	(8)	-	(8)
Balance at 31 March 2008	**499**	**198**	**695**	**8,097**	**(27)**	**9,462**	**-**	**9,462**

Consolidated cash flow statement

for the year ended 31 March 2008

	Notes	**2008** **£'000**	Restated 2007 (see note 1) £'000
Cash flows from operating activities			
Continuing operations			
Cash utilised in operations		**(5,870)**	(4,111)
Interest paid		**-**	(1)
Net cash utilised in continuing operating activities	7	**(5,870)**	(4,112)
Discontinued operations			
Cash generated from operations		**629**	4,024
Interest paid		**-**	(82)
Taxation		**(10)**	(162)
Net cash generated from discontinued operating activities	7	**619**	3,780
Cash flows from investing activities			
Continuing operations			
Purchase of property, plant and equipment		**(336)**	(786)
Purchases of intangible fixed assets		**(109)**	(230)
Decrease in short-term investments		**1,000**	1,000
Loans repaid by third parties		**1,500**	-
Interest received		**591**	784
Net cash generated in continuing investing activities		**2,646**	768
Discontinued operations			
Purchase of property, plant and equipment		**(13)**	(204)
Purchases of intangible fixed assets		**(38)**	(56)
Net proceeds on disposal of business operations undertaking		**666**	10,788
Net cash disposed with business operations		**-**	(2,715)
Interest received		**-**	18
Net cash generated from discontinued investing activities		**615**	7,831
Cash flows from financing activities			
Continuing operations			
Issue of shares		**226**	258
Share buy back and tender offer		**-**	(10,247)
Capital element of finance lease rental payments		**-**	(13)
Net cash generated from/(utilised in) continuing financing investing activities		**226**	(10,002)
Discontinued operations			
Loans repaid		**-**	(400)
Capital element of finance lease rental payments		**-**	(1)
Net cash utilised in discontinued financing activities		**-**	(401)
Decrease in cash and cash equivalents		**(1,764)**	(2,136)
Cash and cash equivalents at the start of the period		**7,071**	9,207
Cash and cash equivalents at the end of the period		**5,307**	7,071

Notes to the preliminary results for the year ended 31 March 2008

1. Restatement of prior year comparatives

The 2007 comparative figures in both the consolidated income statement and the consolidated cash flow statement have been restated since their publication in December 2007. The restatement was required in order to reflect the results and cash flows from Connection Makers within discontinued operations. The reported profit and net assets for the year are not affected by the restatement.

2. Basis of preparation

The Annual Report from which this financial information has been extracted has been prepared by the directors in accordance with those International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations (SICs and IFRICs) which have been adopted by the European Commission and endorsed for use in the EU (collectively "Adopted IFRS"). They take into account the requirements of IFRS 1, 'First-time Adoption of IFRS', as they are the Group's first IFRS financial statements. The financial information does not constitute the Group's statutory accounts, as defined in section 240 of the Companies Act1985, for the year ended 31st March 2008 or the year ended 31st March 2007, but is derived from those accounts. Statutory accounts for the year ended 31st March 2008 will be made available following the Company's Annual General Meeting. The auditors' report on those accounts was not qualified, did not contain an emphasis of matter paragraph and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Eckoh plc's consolidated financial statements were prepared in accordance with applicable United Kingdom Generally Accepted Accounting Principles ("UK GAAP") until 31 March 2007. The date of transition was 1 April 2006. UK GAAP differs in some areas from IFRS. In preparing Eckoh plc's 2007 consolidated financial statements, management has amended certain accounting methods applied in the UK GAAP financial statements to comply with IFRS. The comparative figures in respect of 2007 have been restated to reflect these adjustments.

Reconciliations and descriptions of the effect of the transition from UK GAAP to IFRS on the Group's equity, net income and cash flows are provided in Note 8.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit and loss.

3. Summary of principal accounting policies

Critical accounting policies, estimates and adjustments

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the Group's accounting policies. Estimates and judgements are continually evaluated and are based on historical experience and reasonable expectations of future events. Actual results may differ from those estimates.

The accounting policies cover areas that are considered by the Directors to require estimates and assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The policies, and the related notes to the financial statements, are found below:

Intangible assets	note 14
Trade and other receivables	note 18
Provisions	note 23
Share based payment	note 26

Basis of Consolidation The Group financial statements consolidate the accounts of the Company and its subsidiary undertakings. The results of subsidiaries acquired are included in the consolidated income statement from the date on which control passes to the Group and are included until the date on which the Group ceases to control them. Subsidiaries are all entities over which the Group has power to control the financial and operating policies so as to obtain benefits from their activities. Transactions between Group companies are eliminated on consolidation.

Investments in subsidiary undertakings are accounted for using the purchase method of accounting. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. 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 the Group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Business combinations prior to 1 April 2006 have not been restated under an IFRS basis due to the application of an exemption under IFRS 1.

Intangible fixed assets
(a) Goodwill Goodwill represents the excess of the fair value of the consideration paid over the fair value attributable to the net assets acquired and is capitalised on the Group balance sheet. Goodwill is carried at cost less amortisation charged prior to the Group’s transition to IFRS on 1 April 2006.

Prior to the adoption of IFRS, goodwill was amortised over a period not exceeding 20 years. Following the adoption of IFRS, goodwill is not amortised and is reviewed for impairment at least annually. Any impairment is recognised in the period in which it is indentified.

(b) Intangible fixed assets Intangible fixed assets acquired by the Group are capitalised at the fair value of the consideration paid and amortised over their expected useful economic lives. The expected useful economic life of intangible fixed assets is assessed for each acquisition as it arises, and is generally assumed to be three years.

(c) Research and development Research costs are charged to the income statement in the year in which they are incurred. Development expenses include expenses incurred by the Group to develop new products and enhance its systems. Development costs are capitalised as intangible fixed assets when it is probable that the project will be a success, considering its commercial and technological feasibility, and costs can be measured reliably. Development costs that do not meet those criteria are expensed as incurred. Capitalised development costs are amortised on a straight line bases over the estimated useful life of the asset, which is generally three years.

Amortisation is charged to administrative expenses in the income statement.

The carrying value of intangible fixed assets is assessed at the end of each financial year for impairment. See the policy entitled impairment of assets below.

Impairment of non-financial assets An impairment loss is recognised in the income statement for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset’s fair value less costs to sell, and the value-in-use based on an internal discounted cash flow evaluation. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist

Property, plant and equipment Property, plant and equipment is stated at cost or fair value at acquisition, net of depreciation and any provisions for impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The gain or loss arising on the disposal of an asset is determined by comparing the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. Depreciation is calculated using the straight-line method to allocate the cost of each asset to its estimated residual value over its expected useful life, as follows:

Motor vehicles – over 3 years
Fixtures and equipment – over 3 years

Material residual values and useful lives are reviewed, and adjusted if appropriate, at least annually. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Financial assets Financial assets include investments in companies other than Group companies, trade and other receivables (see separate policy) financial receivables held for investment purposes, treasury shares and other securities. A permanent impairment is provided as a direct reduction of the securities account.

The Group classifies its financial assets in the following categories: available for sale investments and loans and receivables. The classification depends on the purpose for which the investments were acquired. The classification is determined by management at initial recognition and the designation is re-evaluated at each balance sheet date.

(a) available-for-sale investments: are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included within non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.
(b) loans and receivables: loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included within current assets, with the exception of those with maturities greater than one year, which are included within non-current assets. Loans and receivables are included within trade and other receivables in the balance sheet.

In the case of impairment of available-for-sale assets, any loss previously recognised in equity is transferred to the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment losses recognised previously on debt securities are reversed through the income statement when the increase can be related objectively to an event occurring after the impairment loss was recognised in the income statement.

An assessment for impairment is undertaken annually. Management consider the financial information in respect of entities from which receivables are due.

A financial asset is derecognised only where the contractual rights to the cash flows from the asset expire or the financial asset is transferred and that transfer qualifies for derecognition. A financial asset is transferred if the contractual rights to receive the cash flows of the asset have been transferred or the Group retains the contractual rights to receive the cash flows of the asset but assumes a contractual obligation to pay the cash flows to one or more recipients. A financial asset that is transferred qualifies for derecognition if the Group transfers substantially all the risks and rewards of ownership of the asset, or if the Group neither retains nor transfers substantially all the risks and rewards of ownership but does transfer control of that asset.

Inventories Inventories are valued at the lower of cost and net realisable value. The cost of finished goods and work in progress comprises design costs, direct labour and other direct costs. Net realisable value is the estimated selling price in the ordinary course of business less applicable selling expenses.

Trade and other receivables Trade and other receivables are stated at amortised cost less provision for impairment. A provision for the impairment of trade receivables is made when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. Other receivables are stated at amortised cost less provision for impairment.

Cash and cash equivalents Cash and cash equivalents comprise cash in hand, deposits held at call with banks, other short-term investments, with maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

Short-term investments Short-term investments comprise funds which have been invested in short-term deposit accounts with maturities of less than twelve months and amounts held in escrow. Credit and liquidity risk management is described in note 4.

Equity Equity comprises the following:
Share capital represents the nominal value of ordinary shares.
Capital redemption reserve represents the maintenance of capital following the share buy back and tender offer.
Share premium reserve represents consideration for ordinary shares in excess of the nominal value.
Currency reserve represents exchange differences arising on consolidation of Group companies with a functional currency different to the presentation currency.
Retained earnings represents retained profits.

Foreign currency transactions
(a) Functional and presentation currency Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Sterling, which is the Group's functional and presentation currency.

(b) Group companies The results and position of all Group companies that have a functional currency different from the presentation currency are translated into the presentation currency as follows:
(i) assets and liabilities are translated at the closing rates of exchange ruling at the balance sheet date;
(ii) income and expenses are translated at the average exchange rates. If however the average exchange rate is not a reasonable approximation of the exchange rates prevailing on the date of the transactions, the income and expenses are translated at the exchange rates at the transaction dates; and
(iii) resulting exchange differences are recognised as a separate component of equity.

Differences on exchange arising from the retranslation of the net investment in foreign entities are taken to shareholders equity on consolidation. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the profit or loss on disposal.

The Group used an exemption available under IFRS 1 ' First time adoption of International Financial Reporting Standards' which resulted in the cumulative translation differences for all foreign operations being deemed to be zero at the date of transition. Any gain or loss on the subsequent disposal of those foreign operations would exclude translation differences that arose before this date.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and as such are translated at the closing rate.

Leases Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rentals payable under operating leases are charged to income 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.

Provisions Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. The discount rate used reflects current market assessments of the time value of money and the risks specific to the liability.

Employee Benefits
(a) Pensions The Group operates a group personal pension scheme. The assets of the schemes are held separately from those of the Group in independently administered funds. Contributions payable are charged in the income statement in the year in which they are incurred.

(b) Bonus schemes The Group recognises a liability and an expense for bonuses payable to: i) employees based on a formula that takes in to account gross profit; and ii) senior management and executive directors based on a formula that takes in to account operating profit. A provision is recognised where there is a past practice that has created a constructive obligation.

(c) Share-based payments From time to time on a discretionary basis, the Board of Directors award high-performing employees bonuses in the form of share options. The options are subject to a three year vesting period and their fair value is recognised as an employee benefits expense with a corresponding increase in equity over the vesting period. The fair value of share options granted is recognised within staff costs with a corresponding increase in equity. The proceeds received are credited to share capital and share premium when the options are exercised.

The fair value of share options was measured using the QCA-IRS option valuer using the Black-Scholes formula, taking into account the terms and conditions upon which the grants were made. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold of vesting.

IFRS 2 has been applied to all options granted after 7 November 2002 which have not vested on or before 1 April 2006. A deferred tax adjustment is also made relating to the intrinsic value of the share options at the balance sheet date.

As a result of the grant of share options since 6 April 1999 the Company will be obliged to pay employer's National Insurance contributions on the difference between the market value of the underlying shares and their exercise price when the options are exercised. A provision is made for this liability using the value of the Company's shares at the balance sheet date and is spread over the vesting period of the share options.

(d) Employee Share Ownership Plan The Group's Employee Share Ownership Plan ('ESOP') is a separately administered trust. The assets of the ESOP comprise shares in the Company and cash. The assets, liabilities, income and costs of the ESOP have been included in the financial statements in accordance with SIC 12, 'Consolidation - Special purpose entities' and IAS 32, 'Financial Instruments: Disclosure and Presentation'. The shares in the Company are included at cost to the ESOP and deducted from shareholders' funds. When calculating earnings per share these shares are treated as if they were cancelled.

Revenue recognition Revenue represents the fair value of the sale of goods and services, net of Value-Added Tax, and after eliminating sales within the Group. Revenue is recognised as follows:

Speech Solutions build fee revenue is recognised on delivery of the speech application. Call revenue from speech services is recognised when the Group has determined that users have accessed its services via a telephone carrier network and/or the Group's telecommunication call processing equipment connected to that network. In the event that build, call and maintenance revenue are included in the same contract, each component part is separately valued and individual component revenues are recognised when that component is delivered.

Client IVR and Connection Makers revenue is recognised when the Group has determined that users have accessed its services via a telephone carrier network and/or the Group's telecommunication call processing equipment connected to that network. Cost of sales includes media costs, network charges, production costs and facility costs, and is expensed in the accounting period in which the related revenues are generated

Taxation Current tax is the tax currently payable based on taxable profit for the year.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not provided if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that reversal will not occur in the foreseeable future.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Financial liabilities Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities are stated at amortised cost.

A financial liability is derecognised only when the obligation is discharged, is cancelled or it expires.

4. Earnings per share

Basic earnings per ordinary share is calculated on the basis of the weighted average number of ordinary shares of 197,216,792 (2007: 263,382,969) in issue during the year ended 31 March 2008 after adjusting for shares held by the Employee Share Ownership Plan of 70,866 (2007: Nil) and the profit for the period attributable to equity holders of the parent of £0.5m (2007: £8.4m).

In calculating diluted earnings per share, the weighted average number of ordinary shares in issue, after adjusting for shares held by the Employee Share Ownership Plan is further adjusted to include the dilutive effect of potential ordinary shares. The potential ordinary shares represent share options granted to employees where the exercise price is less than the average market price of ordinary shares in the period.

	2008	2007
	'000	'000
Weighted average number of shares in issue in the period (number in thousands)	**199,288**	263,383
Shares held by employee ownership plan	**(71)**	-
Number of shares used in calculating basic earnings per share (number in thousands)	**199,217**	263,383

Of the share options outstanding at the end of the year, none were potentially dilutive (2007: nil).

5. Share Capital

	Number of shares	**Nominal value**	**Consideration received**
		£'000	**£'000**
Ordinary shares			
At 1 April 2006	272,456,475	681	
Shares issued under the share option scheme	3,399,185	8	258
Share buyback and tender offer	(79,346,084)	(198)	-
At 1 April 2007	196,509,576	491	
Shares issued under the share option scheme	3,250,000	8	234
Shares held under Share Incentive Plan	(70,866)	-	(8)
At 31 March 2008	**199,688,710**	**499**	

6. Reserves

	Share capital £'000	Capital redemption reserve £'000	Share premium reserve £'000	Currency reserve £'000	Retained earnings £'000
At 1 April 2006	681	-	227	-	9,345
Profit for the year	-	-	-	-	8,321
Share based payment charge	-	-	-	-	111
Shares issued during the year under the share option schemes	8	-	250	-	-
Exchange differences	-	-	-	(61)	-
Transfer on disposal	-	-	-	54	-
Share buyback and tender offer	(198)	198	-	-	(10,247)
At 1 April 2007	491	198	477	(7)	7,530
Profit for the year	-	-	-	-	470
Share based payment charge	-	-	-	-	97
Shares issued during the year under the share option schemes	8	-	226	-	-
Shares held under Share Incentive Plan	-	-	(8)	-	-
Exchange differences	-	-	-	(20)	-
At 31 March 2008	**499**	**198**	**695**	**(27)**	**8,097**

7. Cash flow from operating activities

	2008 **£'000**	2007 £'000
Cash flows from operating activities		
Continuing operations		
Loss after taxation	**(2,177)**	(615)
Interest expense	**(569)**	(881)
Depreciation of property, plant and equipment	**597**	723
Amortisation of intangible assets	**153**	179
Impairment of investment	**288**	-
Share based payments	**34**	54
Disposal of property, plant and equipment	**-**	67
Exchange differences	**(20)**	(7)
Operating loss before changes in working capital and provisions	**(1,694)**	(480)
Decrease in inventories	**4**	25
Decrease in trade and other receivables	**1,835**	4,409
Decrease in trade and other payables	**(5,516)**	(8,433)
(Decrease)/increase in provisions	**(499)**	368
Cash utilised in operations	**(5,870)**	(4,111)
Interest paid	**-**	(1)
Net cash utilised in continuing operating activities	**(5,870)**	(4,112)
Discontinued operations		
Profit after taxation	**2,647**	8,792
Profit on disposal	**(2,066)**	(7,993)
Interest (income)/expense	**(62)**	76
Taxation recognised in income statement	**10**	80
Depreciation of property, plant and equipment	**37**	35
Amortisation of intangible assets	**23**	21
Share based payments	**63**	57
Exchange differences	**-**	(54)
Disposal of property, plant and equipment	**36**	-
Operating loss before changes in working capital and provisions	**688**	1,014
Increase in inventories	**-**	(46)
(Increase)/decrease in trade and other receivables	**622**	(1,612)
Decrease in trade and other payables	**(681)**	4,692
Decrease in provisions	**-**	(24)
Cash generated from operations	**629**	4,024
Interest paid	**-**	(82)
Taxation	**(10)**	(162)
Net cash generated from discontinued operating activities	**619**	3,780

8. Transition to IFRS

As stated in the Basis of Preparation, these are the Group's first consolidated annual financial statements prepared in accordance with IFRS.

IFRS 1 permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. These consolidated financial statements have been prepared on the basis of taking the following optional exemptions:
i) Business combinations prior to 1 April 2006, the Group's date of transition to IFRS, have not been restated to comply with IFRS 3 ‘Business Combinations’.
ii) Cumulative translation differences existing at the date of transition to IFRS are deemed to be zero. The gain or loss on a subsequent disposal of any foreign operation shall exclude translation differences that arose before the date of transition to IFRS and shall include later translation differences.
iii) IFRS2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 April 2006.

The following reconciliations show the effect of the transition from UK GAAP to IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 1 April 2006 and also at 31 March 2007 followed by reconciliations of equity and net income.

Overview of impact on equity	31 March 2007 £’000	1 April 2006 £’000
Total equity under UK GAAP	8,699	12,201
Total equity under IFRS	8,689	11,845

	Restated	Effect of		
	UK GAAP	transition	IFRS	
	Group	to IFRS	Group	
Reconciliation of equity at 1 April 2006	**£'000**	**£'000**	**£'000**	**Notes**
Assets				
Non-current assets				
Goodwill	8,036	(8,036)	-	a
Intangible assets	568	(446)	122	a,b
Property plant and equipment	1,498	(466)	1,032	a
Financial assets - available for sale investments	288	-	288	
	10,390	(8,948)	1,442	
Current assets				
Inventories	479	(437)	42	a
Trade and other receivables	22,537	(3,060)	19,477	a
Short-term investments	3,530	-	3,530	
Cash and cash equivalents	9,207	(4,470)	4,737	a
	35,753	(7,967)	27,786	
Assets held for sale	-	21,221	21,221	a
Total assets	46,143	4,306	50,449	
Liabilities				
Current liabilities				
Trade and other payables	(28,771)	8,640	(20,131)	c
Current tax liabilities	(1,476)	397	(1,079)	c
Obligations under finance leases	(23)	7	(16)	c
Bank loans and overdrafts	(2,007)	1,895	(112)	c
	(32,277)	10,939	(21,338)	
Liabilities directly associated with assets held for sale	-	(17,114)	(17,114)	c
Non-current liabilities				
Bank loans	(1,473)	1,473	-	c
Obligations under finance leases	(20)	16	(4)	c
Provisions	(172)	24	(148)	c
	(1,665)	1,513	(152)	
Net assets	**12,201**	(356)	**11,845**	
Shareholders' equity				
Share capital	681	-	681	
Share premium	227	-	227	
Retained earnings	9,366	(21)	9,345	d
Equity attributable to equity holders of the parent	10,274	(21)	10,253	
Minority interest in equity	1,927	(335)	1,592	e
Total equity	**12,201**	(356)	**11,845**	

The UK GAAP balance sheet as at 1 April 2006 has been restated to separately disclose short-term investments previously disclosed within cash and cash equivalents. The effect of this has been to reduce the cash and cash equivalent balance by £530,000 with a corresponding increase in short-term investments.

Explanation of the effect of the transition to IFRS

The material adjustments to the balance sheet are explained below:

a Assets held for sale
On the transition from UK GAAP to IFRS the assets, as at 1 April 2006, of Symphony Telecom Holdings plc ("Symphony"), a 65.64% owned, AIM listed subsidiary of Eckoh plc, have been included within the heading 'assets classified as held for sale' as the investment met the IFRS 5 criteria for such classification. The line items affected are described below:

Impact of recognising assets held for sale	
Goodwill	8,036
Intangible assets	425
Property, plant and equipment	466
Inventories	437
Trade and other receivables	3,060
Amount receivable from subsidiary undertaking	4,327
Cash and cash equivalents	4,470
Total impact - assets held for sale	**21,221**

b Intangible assets

Overall impact of derecognising intangible assets in accordance with IAS 38	21
Total impact - decrease in intangible assets	**21**

c Liabilities directly associated with assets held for sale
On the transition from UK GAAP to IFRS the liabilities, as at 1 April 2006, of Symphony have been included within the heading 'liabilities directly associated with assets held for sale'. The line items affected are described below:

Impact of recognising liabilities associated with assets held for sale	
Trade and other payables	8,640
Amount payable to subsidiary undertaking	4,662
Current tax liabilities	397
Obligations under finance leases	7
Bank loans and overdrafts	1,895
Bank loans	1,473
Obligations under finance leases	16
Provisions	24
Total impact - liabilities directly associated with assets held for sale	**17,114**

d Retained earnings

Overall impact of derecognising intangible assets in accordance with IAS 38	(21)
Total impact - decrease in retained earnings	**(21)**

e Minority interest in equity

Overall impact of equity accounting for Joint Ventures in accordance with IAS 31, under UK GAAP these entities were accounted for as subsidiary undertakings	(335)
Total impact - reduction in minority interest in equity	**(335)**

Reconciliation of equity at 31 March 2007	Restated UK GAAP Group £'000	Effect of transition to IFRS £'000	IFRS Group £'000	Notes
Assets				
Non-current assets				
Intangible assets	190	(10)	180	a
Property plant and equipment	1,148	-	1,148	
Financial assets - available for sale investments	288	-	288	
Other receivables	3,273	-	3,273	
	4,899	(10)	4,889	
Current assets				
Inventories	17	-	17	
Trade and other receivables	8,644	-	8,644	
Short-term investments	2,530	-	2,530	
Cash and cash equivalents	7,071	-	7,071	
	18,262	-	18,262	
Total assets	23,161	(10)	23,151	
Liabilities				
Current liabilities				
Trade and other payables	(13,682)	-	(13,682)	
Current tax liabilities	(257)	-	(257)	
Obligations under finance leases	(7)	-	(7)	
	(13,946)	-	(13,946)	
Non-current liabilities				
Provisions	(516)	-	(516)	
	(516)	-	(516)	
Net assets	**8,699**	(10)	**8,689**	
Shareholders' equity				
Share capital	491	-	491	
Capital redemption reserve	198	-	198	
Share premium	477	-	477	
Currency reserve	-	(7)	(7)	b
Retained earnings	7,533	(3)	7,530	c
Equity attributable to equity holders of the parent	**8,699**	(10)	**8,689**	

The UK GAAP balance sheet as at 31 March 2007 has been restated to separately disclose short-term investments previously disclosed within cash and cash equivalents. The effect of this has been to reduce the cash and cash equivalent balance by £530,000 with a corresponding increase in short-term investments.

Explanation of the effect of the transition to IFRS

The material adjustments to the balance sheet are explained below:

a Intangible fixed assets	
Overall impact of derecognising intangible assets in accordance with IAS 38	(10)
Total impact - decrease in intangible assets	**(10)**

b Currency reserve	
Overall impact of separate disclosure of currency reserve	(7)
Total impact - separate disclosure of currency reserve	**(7)**

c Retained earnings	
Overall impact of derecognising intangible assets in accordance with IAS 38	(10)
Overall impact of separate disclosure of currency reserve	7
Total impact - increase in retained earnings	**(3)**

Reconciliation of net income for the year ended 31 March 2007	UK GAAP Group £'000	Effect of transition To IFRS £'000	IFRS Group £'000	Notes
Continuing operations				
Revenue	81,539	-	81,539	
Cost of sales	(72,568)	-	(72,568)	
Gross profit	8,971	-	8,971	
Administrative expenses	(9,548)	9	(9,539)	a
Operating loss	(577)	9	(568)	
Interest receivable	882	-	882	
Interest payable	(1)	-	(1)	
Profit before taxation	304	9	313	
Taxation	-	-	-	
Profit attributable to equity holders of the parent from continuing operations	304	9	313	
Discontinued operations				
Post tax profit for the period from discontinued operations	8,034	(170)	7,864	b
Profit for the period	8,338	(161)	8,177	
Attributable to:				
Minority interests	(28)	(116)	(144)	b
Equity holders of the parent	8,366	(45)	8,321	c
	8,338	(161)	8,177	

Explanation of the effect of the transition to IFRS

The material adjustments to the income statement are explained below:

a Administrative expenses	
Effect of the derecognition of advertisements classified within intangible fixed assets under UK GAAP, but derecognised in accordance with the IAS 38 criteria:	
- Amortisation charge reversal	64
- Additions charged to income statement	(55)
Total impact - decrease in administrative expenses	**9**

b Profit attributable to minority interests	
Effect of equity accounting for the Joint Ventures of Symphony Telecom Holdings plc in accordance with the IAS 31 criteria, under UK GAAP these entities were accounted for as subsidiary undertakings	(116)
Currency reserve transfer on disposal of subsidiary operations	(54)
Total impact - increase in loss attributable to minority interests	**(170)**

c Profit attributable to equity holders of the parent	
Decrease in administrative expenses (see a)	9
Currency reserve transfer on disposal of subsidiary operations	(54)
Total impact - increase in profit attributable to equity holders of the parent	**(45)**

Explanation of material adjustments to the cash flow statement
The definition of cash is narrower under UK GAAP than under IAS 7 ‘Cash Flow Statements’. Under IFRS highly liquid investments, readily convertible to a known amount of cash and with an insignificant risk of changes in value, are regarded as cash equivalents. The cash flow statement in the last UK GAAP financial statements reported movements in cash. The cash flow statement in these IFRS consolidated financial statements reports movements in cash and cash equivalents.

Application of IFRS has resulted in reclassification of certain items in the cash flow statement as follows:
(i) interest paid and interest received are classified as cash flows from operating activities and cash flows from investing activities respectively under IFRS, but were included in the 'Returns on investments and servicing of finance' category in cash flows under UK GAAP.

(ii) taxation is classified as operating cash flows under IFRS, but was included in a separate category of 'Taxation' cash flows under UK GAAP.

(iii) payments to acquire property, plant and equipment and payments to acquire intangible fixed assets have been classified as part of 'Investing activities' under IFRS. Under UK GAAP such payments were classified as part of 'Capital expenditure and financial investment'.

(iv) cash flows arising from the disposal of subsidiary undertakings are classified as cash flows from investing activities under IFRS, but were included in a separate category of 'Acquisitions and disposals' under UK GAAP.

(v) included within cash flows from investing activities under IFRS are cash flows classified as ‘Financing’ under UK GAAP.

There are no other material differences between the cash flow statement presented under IFRS and the cash flow statement presented under UK GAAP.