



29 November 2007

Z GROUP plc

Interim Results for the six months ended 31 August 2007 and the proposed sale of its operating subsidiaries

Z GROUP plc (Z GROUP or the Group), the AIM listed developer and provider of leading consumer internet technologies, today announces its unaudited interim results for the six months ended 31 August 2007.

Summary of Interim Results

- Revenues were £1.0m (2006: £1.5m) in line with anticipated market expectations
- Gross margins remained stable at 74% (2006: 76%)
- Write down in investment of OnShare – including goodwill impairment - of £6.9m
- Other administrative costs of £0.9m (2006: £1.4m)
- As a result, the Group reported a six month loss before tax of £7.1m (2006: loss £0.5m)
- Loss per share of 29.8p (2006: loss of 1.7p)
- Underlying loss per share, as adjusted for non-cash items, of 0.6p (2006: loss of 0.3p)
- Cash at bank £1.6m (2006: £3.6m)

Z GROUP also announces today that the Board has entered discussions with Jack Bekhor and Jamie True, the Group's joint CEOs, to sell to them the operating subsidiaries of the Group.

For further information:

Z GROUP plc

John Standen
(Chairman)

Tel: +44 (0) 8700 111 173

Duncan Neale
(Finance Director)

Tel: +44 (0) 8700 111 173

Landsbanki Securities (UK) Limited (NOMAD)

Jeff Keating / Tom Hulme
(Corporate Finance)

Tel: +44 (0) 20 7426 9593

Chairman's statement

Summary

On 12 September 2007 the Board announced a trading update and indicated that, whilst trading was in line with management expectations for the six months to 31 August 2007, the results for the year would be adversely affected both by the lack of take-up by consumers for OnShare and the anticipated declining performance of ONSPEED. Consequently, a write-off of our investment in OnShare was likely to take place this financial year as a prudent measure. Also, we indicated that we were looking at alternative ways to generate revenue from the OnShare technology.

The financial results for the six months to 31 August 2007 are set out below. Turnover was £1.0 million and the trading loss, including the proposed write-off of our investment in OnShare Ltd which totals £6.9 million, amounts to £7.1 million. Our cash balance was £1.6m at 31 August 2007.

When Z GROUP came to AIM in June 2005, the intention was to grow the company with a world beating product portfolio for users of the web. ONSPEED was already established in its marketplace and OnShare was under development. OnShare has taken much longer to come to market than originally anticipated and its future is now uncertain: consumer uptake has been slow and it is not considered economically viable in its current form.

The joint CEOs, Jack Bekhor and Jamie True, now believe that the sale of software products to consumers for web enhancing purposes has become increasingly difficult as such products are now mostly being provided free. Consequently, with our principal product ONSPEED declining in turnover and OnShare unviable, the Board has entered discussions with the joint CEOs to sell to them the operating subsidiaries of the Group for a nominal consideration ('the Proposal'). This Proposal would result in Z GROUP becoming an investment company, should stem the trading losses considerably and is expected to leave the Group with cash resources in excess of £1m and the obligation of the lease on its premises. The Board has appointed a committee of independent directors, comprising Polly Williams, Duncan Neale and me, to negotiate the Proposal with the joint CEOs. The Proposal will require shareholder approval and, if agreement is reached, a circular will be issued to shareholders to gain their consent to the sale.

Financial summary

Turnover of £1.0 million for the six months to 31 August 2007, compared with turnover of £1.5 million for the same period last year.

Administrative costs have been cut during the period to £0.9 million (2006: £1.4 million), reflecting the impact of a significant cost-cutting exercise carried out by the executive team.

The write down of our investment in OnShare equates to £6.9 million.

After a charge of £27,000 in respect of share option charges, the resulting operating loss was £7.1 million.

In spite of cost-cutting, our cash balance at 31 August 2007 had fallen to £1.6 million compared with £2.2 million at 28 February 2007. Since 31 August 2007 our cash has reduced further and at 31 October 2007 was £1.3 million, representing an average monthly cash burn of £110,000 since 1 March 2007.

In addition, the accounts are presented for the first time in accordance with International Financial Reporting Standards (IFRS).

Operations

ONSPEED has performed in line with management expectations.

ONSPEED Mobile remains available to generate income. However, the directors have undertaken extensive negotiations over the past eighteen months with operators to try to commercialise this product profitably and to date no contract of substance has proved possible.

The Net2Roam product provides revenue of £0.1 million, and Shrink My Tunes made a small contribution to Group turnover in the period.

OnShare was launched to a test group of users in March 2006 and a soft launch followed in February 2007 after a number of required improvements were identified and incorporated into the product. By June 2007 the growth in users was exceeding the directors' original expectations and we had planned to launch the product commercially by September of this year. We issued the trading update on 12 September 2007 to advise shareholders that the take up from consumers had unfortunately not been sufficiently encouraging for us to undertake the commercial launch with any confidence of a profitable outcome. The R&D invested in OnShare's underlying protocol "ActiveStream" is also considered unlikely to generate any additional income in the foreseeable future.

Immediate future

In view of the continued trading losses and the erosion of cash, the directors believe that shareholders interests' would be best served by securing a speedy solution to the current problems of the Group. Accordingly, the Proposal or any other comparable solution will be pursued by the Board, or by the Committee of Independent Directors, as a matter of urgency. Shareholders will be kept informed of progress as appropriate.

John Standen
Chairman
29 November 2007

Independent Review report to Z GROUP plc
For the six months ended 31 August 2007

Introduction

We have been instructed by the Company to review the financial information for the six months ended 31 August 2007 which comprises the consolidated income statement, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated cash flow statement and related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information. This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the AIM rules of the London Stock Exchange which require that it must be prepared in a form consistent with that which will be adopted in the next annual accounts having regard to the accounting standards applicable to such annual accounts.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 31 August 2007.

Baker Tilly UK Audit LLP

London, UK

29 November 2007

Condensed Consolidated Interim Income Statement
for the six months ended 31 August 2007

	Notes	Unaudited Six months ended 31 August 2007	Unaudited Six months ended 31 August 2006	Unaudited Year ended 28 February 2007
		£'000	£'000	£'000
Continuing operations				
Revenue		1,016	1,536	2,630
Cost of sales		(260)	(361)	(651)
Gross profit		756	1,175	1,979
Share option expense		(27)	(268)	(344)
Write-down of intangible fixed assets	5	(3,110)		
Impairment of goodwill	4	(3,804)		
Other administrative expenses		(911)	(1,449)	(2,811)
Operating loss		(7,096)	(542)	(1,176)
Financial income		24	64	101
Loss before tax		(7,072)	(478)	(1,075)
Income tax expense		-	143	64
Loss for the period		(7,072)	(335)	(1,011)
Basic & diluted loss per share	6	(29.8p)	(1.7p)	(5.0p)

Condensed Consolidated Interim Balance Sheet
at 31 August 2007

	Notes	Unaudited 31 August 2007 £'000	Restated Unaudited 31 August 2006 £'000	Restated Unaudited 28 February 2007 £'000
Assets				
Non-current assets				
Goodwill	4	-	-	3,804
Intangible assets	5	15	2,020	2,631
Property, plant and equipment		177	232	200
		-----	-----	-----
		192	2,252	6,635
Current assets				
Inventories		51	83	56
Trade and other receivables		539	1,119	683
Cash and cash equivalents		1,629	3,598	2,256
		-----	-----	-----
		2,219	4,800	2,995
Total assets		2,411	7,052	9,630
Liabilities				
Current liabilities				
Trade and other payables		(640)	(1,325)	(772)
Current tax liabilities		(80)	(101)	(197)
Obligations under finance leases		(9)	(8)	(4)
Bank overdrafts and loans		-	-	(11)
		-----	-----	-----
		(728)	(1,434)	(984)
		-----	-----	-----
Net current assets		1,490	3,366	2,011
Non-current liabilities				
Deferred tax		(40)	(5)	(39)
Other provisions		(73)	(52)	-
Obligations under finance leases		(25)	(21)	(17)
		-----	-----	-----
		(137)	(78)	(56)
		-----	-----	-----
Net assets		1,545	5,540	8,590
		-----	-----	-----
Shareholders equity				
Called up share capital		1,187	986	1,187
Share premium account		5,968	2,342	5,968
Merger reserve		1,066	1,066	1,066
Share based payments reserve		798	758	771
Retained (losses) / earnings		(7,474)	388	(402)
		-----	-----	-----
Total shareholders equity		1,545	5,540	8,590
		-----	-----	-----

Consolidated Statement of Changes in Equity
for the period ended 31 August 2007

	Share capital	Share premium	Merger reserve	Share based payments reserve	Retained (losses) / earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 March 2006	974	2,322	1,066	740	296	5,398
Loss for the six month period ended 31 August 2006	-	-	-	-	(158)	(158)
Total recognised (expense) / income for the period	-	-	-	-	(158)	(158)
Share option charge in the period	-	-	-	268	-	268
Adjustment for options subsequently exercised or forfeited	-	-	-	(250)	250	0
Shares issued in the period	12	20	-	-	-	32
Balance at 31 August 2006	986	2,342	1,066	758	388	5,540
Balance at 1 March 2006	974	2,322	1,066	740	296	5,398
Loss for the year-ended 28 February 2007	-	-	-	-	(1,011)	(1,011)
Total recognised (expense) / income for the year	-	-	-	-	(1,011)	(1,011)
Share option charge in the year	-	-	-	344	-	344
Adjustment for options subsequently exercised or forfeited	-	-	-	(313)	313	0
Shares issued in the period	213	3,646	-	-	-	3,859
Balance at 28 February 2007	1,187	5,968	1,066	771	(402)	8,590
Balance at 1 March 2007	1,187	5,968	1,066	771	(402)	8,590
Loss for the six month period ended 31 August 2007	-	-	-	-	(7,072)	(7,072)
Total recognised (expense) / income for the period	-	-	-	0	(7,072)	(7,072)
Share option charge in the period	-	-	-	27	-	27
Shares issued in the period	-	-	-	-	-	-
Balance at 31 August 2007	1,187	5,968	1,066	798	(7,474)	1,545

Condensed Consolidated Interim Statement of Cash Flows
for the six months ended 31 August 2007

	Unaudited Six months ended 31 August 2007 £'000s	Unaudited Six months ended 31 August 2006 £'000s	Restated Unaudited Year ended 28 February 2007 £'000s
Cash flows used in operating activities			
Operating loss for the period	(7,096)	(542)	(1,176)
Depreciation	21	51	123
Amortisation	4	22	44
Impairment of intangible fixed assets (Note 5)	3,110		
Impairment of goodwill (Note 4)	3,804		
Share option charge	27	268	344
FX movement	9		2
Decrease / (increase) in stocks	5	(9)	17
Decrease in trade and other receivables	144	507	686
Increase in trade and other payables	(173)	(54)	(249)
Net cash from operating activities	(146)	243	(209)
Income tax paid	0	0	(290)
Net cash flows used in operating activities	0	0	(290)
Cash flows used in investing activities			
Interest receivable	24	64	101
Purchase of property, plant and equipment	(1)	(172)	(319)
Purchase of intangible fixed assets	(498)	(686)	(1,208)
Net cash flows used in investing activities	(475)	(794)	(1,426)
Cash flows from financing activities			
Share issue		32	55
Finance lease	(6)	(9)	(9)
Net cash flows used in investing activities	(6)	23	46
Net increase / (decrease) in cash and cash equivalents	(627)	(528)	(1,879)
Cash and cash equivalents at start of period	2,220	4,099	4,099
Cash and cash equivalents at end of period	1,593	3,571	2,220

Notes to the Consolidated Interim report
for the six months ended 31 August 2007

1. Basis of preparation

From 1 March 2007, the Group has adopted International Financial Reporting Standards (IFRS) as adopted by the EU in the preparation of the consolidated financial statements.

Prior to this accounting period, the Group prepared its audited annual financial statements under UK Generally Accepted Accounting Principles (UK GAAP). For periods commencing 1 March 2007, the Group is required to prepare its annual consolidated financial statements in accordance with IFRS as adopted by the European Union (EU) and implemented in the UK. As the financial statements for the year to 28 February 2008 will include comparatives for the year ended 28 February 2007, the Group's date of transition to IFRS is 1 March 2006 and the comparatives will be restated to IFRS. Accordingly, the financial information for the six months to 31 August 2006 has been restated to present the comparative information in accordance with IFRS based on a transition date of 1 March 2006. Note 7 of this interim financial information sets out how the Group's previous financial position is affected by the change to IFRS.

The financial information for the six months ended 31 August 2007 and 31 August 2006 is unaudited. The comparative figures for the year ended 28 February 2007 were derived from the Group's audited financial statements for that period as filed with the Registrar of Companies as restated for IFRS. The financial information does not constitute the financial statements for that period. Those accounts received an unqualified audit report which did not contain any statement under s237 (2) or (3) of the Companies Act 1985.

At the date of authorisation of this report the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 8	Operating Segments
IFRIC 8	Scope of IFRS 2 Share-based Payment
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment
IFRIC 11	Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements

The directors have also considered the amendments to IAS 1 and IAS 23.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group when the relevant statements come into effect for periods commencing on or after 1 April 2007.

2. Principal Accounting Policies of the Group

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) made up to 28 February each year. The excess of the cost of acquisition over the fair values of the Group's share of identifiable net assets, including intangible assets, acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair value of identifiable net assets acquired (i.e. discount on acquisition) is recognised directly in the income statement.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. 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 initially measured at fair value at acquisition date irrespective of the extent of any minority interest. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. When necessary, adjustments are made the financial statements of subsidiaries to bring the accountant policies used into line with those used by other members of the Group.

All intra-Group transactions, balances, and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Goodwill

Goodwill, which represents the difference between the purchase consideration and the fair values of those net assets (or book value of those net assets if the difference between the book value and fair value is immaterial), is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Intangible fixed assets - software development cost

Z GROUP invests a significant proportion of its resources in the development of its own intellectual property to bring new products and services to the market. Development expenditure (principally in the form of the salary costs of its developers) is capitalised when its future recoverability can be foreseen with reasonable assurance. All research and other development costs are written off as incurred.

Intangible fixed assets - website development cost

The Group capitalises website development costs to comply with SIC32.

Property Plant and Equipment

Property, plant and equipment are initially recorded at cost of purchase and are depreciated on a straight-line basis over their estimated useful lives, as follows:

Computer equipment	4 years
Office equipment, fixtures and fittings	4 years
Motor vehicles	4 years

Leasing

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are portioned between the finance element, which is charged to the income statement, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are classified as operating leases. Rentals applicable to operating leases are charged against profits as incurred.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates for future cash flows have been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as revaluation increase.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is based upon the estimated selling price less further costs expected to be incurred to completion and disposal. Provision is made for any obsolete or slow-moving items.

Revenue recognition

Revenue from the sales of licences is recognised in full when an agreement is signed, when delivery and acceptance of the software by the customer has occurred, when the fee is fixed and determinable and when collection is considered probable.

Revenue relating to the provision of services are delivered with that portion relating to subsequent year included in the deferred income.

Revenue is stated exclusive of Value Added Tax.

Share based payments

The Group has applied the requirements of IFRS 2 Share-based Payments. In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 March 2006.

The Group issues share options to certain employees. These options are measured at fair value at the date of the grant, using the Black-Scholes option-pricing model. The fair value of the options is expensed on a straight-line basis over the vesting period, based on the Group's estimate of when shares will vest, applying the assumptions on a consistent basis with those used in the audited financial statements for the year ended 28 February 2007.

Taxation

Deferred tax assets are recognised only to the extent that it is probable that they will be recovered through sufficient future taxable profit. The carrying amount of deferred tax assets is revalued at each balance sheet date.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred tax is also taken directly to equity.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of asset and liabilities within the next financial year are discussed below.

Estimation of software development costs

Z GROUP invests a significant proportion of its resources in the development of its own intellectual property to bring new products and services to the market. Development expenditure (principally in the form of the salary costs of its developers) is capitalised when its future recoverability can be foreseen with reasonable assurance. Employees of the Group typically work on a number of projects at any given time, some of which relate to development work and some of which relate to existing products. As such, the employees have to estimate the amount of time devoted to each project, which means that the quantum of any capitalised development cost is reliant on the accuracy of the employees' estimates.

Share-based payments

The Group issues share-based payments to certain employees. The fair value and the vesting periods use management assumptions in their calculation. While management believes that the assumptions used are appropriate, a change in the assumptions used would impact the results of the Group.

3. Segmental information

The Group has one business segment - the supply of software for data compression purposes, with all activities taking place in the UK. Consequently, there is no reporting by business segment

4. Goodwill

The Group purchased the 49% minority interest in Onshare Limited for a total consideration of £3,804,160 on 15 December. The transaction gave rise to goodwill of £3,804,160 since, at the date of acquisition, Onshare Limited had net liabilities.

The Board of Z GROUP does not believe that Onshare will generate any income in the foreseeable future, and as such consider the goodwill associated with Onshare Limited to be fully impaired. Consequently, there is an impairment charge in the current period of £3,804,160.

5. Intangible Fixed Assets	Unaudited	Unaudited	Unaudited	Unaudited	Restated
	Development expenditure £'000	Website expenditure £'000	Intellectual property rights £'000	Domain names £'000	Unaudited Total £'000
Cost					
1 March 2007	2,292	467	65	13	2,837
Additions	492		3	3	498
Impairment	(2,784)	(465)	(68)		(3,317)
31 August 2007	-	2		16	18
Amortisation					
1 March 2007	(37)	(153)	(14)	(2)	(206)
Charged in the period			3	(1)	(4)
Impairment	37	153	17		207
31 August 2007	-	-	-	(3)	(3)
Net book value					
31 August 2007	-	2	-	13	15
28 February 2007	2,255	314	51	11	2,631

The net impairment charge in the period is £3,110,000 (£3,317,000 less £207,000) and is the result of the Board of Z GROUP's belief that Onshare will not generate any income in the foreseeable future.

6. Earnings per share

The calculation of basic earnings per share is based upon the profit after tax divided by the weighted average number of shares in issue during the period.

The calculation of fully diluted earnings per share is based upon the profit after tax divided by the weighted average number of shares in issue during the period after taking into account the dilutive effect of share options.

Basic & diluted loss per share	Loss after tax £'000	Weighted average number of shares	EPS (pence)
6 months ended 31 August 2007	(7,072)	23,745,879	(29.8)
6 months ended 31 August 2006	(335)	19,562,666	(1.7)
12 months ended 28 February 2007	(1,011)	20,284,347	(5.0)

Due to the loss incurred in the above periods, there is no dilutive effect from the issue of share options.

7. Explanation of transition to IFRS

The Group's financial statements for the year ended 28 February 2008 will be the first financial statements that comply with International Financial Reporting Standards (IFRS). The Group's financial statements prior to and including 28 February 2007 had been prepared in accordance with Generally Accepted Accounting Principles in the United Kingdom (UK GAAP).

As required by IFRS 1, the impact of the transition from UK GAAP to IFRS is explained below. The accounting policies set out above have been applied consistently to all periods presented in this interim financial information and in preparing an opening IFRS balance sheet at 1 March 2006 for the purposes of transition to IFRS.

IAS 1 – Presentation of Financial Statements. The form and presentation in the UK GAAP financial statements has been changed to be in compliance with IAS 1.

IAS 7 – Cash Flow Statements. The IFRS Cash Flow Statement, prepared under IAS 7, presents cash flows in three categories : cash flows from operating activities, cash flows from investing activities and cash flows from financing activities. Other than the reclassification of cash flow into the new disclosure categories, there are no significant differences between the Group's Cash Flow Statement under UK GAAP and IFRS. Consequently, no cash flow reconciliations are provided. Purchases of tangible fixed assets under UK GAAP have been reclassified to purchases of intangible assets and purchases of property, plant and equipment under IFRS.

There is no change to the reported losses in the year ended 28 February 2007 as a result of the transition to IFRS.

Reconciliation of shareholders equity at 1 March 2006

Notes	UK GAAP £'000s	Effects of transition to IFRS £'000s	IFRS £'000s
Non-current assets			
Goodwill	0	0	0
Intangible assets	1,151	235	1,386
Property, plant and equipment	319	(235)	84
	<u>1,470</u>	<u>0</u>	<u>1,470</u>
Current assets			
Inventories	64	0	64
Trade and other receivables	1,369	0	1,369
Cash and cash equivalents	4,135	0	4,135
	<u>5,568</u>	<u>0</u>	<u>5,568</u>
Total assets	<u>7,038</u>	<u>0</u>	<u>7,038</u>
Current liabilities			
Trade and other payables	(1,161)	0	(1,161)
Current tax liabilities	(382)	0	(382)
Obligations under finance leases	(9)	0	(9)
Bank overdrafts and loans	(1)	0	(1)
	<u>(1,553)</u>	<u>0</u>	<u>(1,553)</u>
Net current assets	<u>4,015</u>	<u>0</u>	<u>4,015</u>
Non-current liabilities			
Deferred tax	(61)	0	(61)
Other provisions	0	0	0
Obligations under finance leases	(26)	0	(26)
	<u>(87)</u>	<u>0</u>	<u>(87)</u>
Net assets	<u>5,398</u>	<u>0</u>	<u>5,398</u>
Shareholders equity			
Called up share capital	974	0	974
Share premium account	2,322	0	2,322
Merger reserve	1,066	0	1,066
Share based payments reserve	740	0	740
Retained earnings	296	0	296
Total shareholders equity	<u>5,398</u>	<u>0</u>	<u>5,398</u>

Reconciliation of shareholders equity at 31 August 2006

	Notes	UK GAAP £'000s	Effects of transition to IFRS £'000s	IFRS £'000s
Non-current assets				
Goodwill		0	0	0
Intangible assets	1	1,815	205	2,020
Property, plant and equipment	1	437	(205)	232
		<u>2,252</u>	<u>0</u>	<u>2,252</u>
Current assets				
Inventories		83	0	83
Trade and other receivables		1,119	0	1,119
Cash and cash equivalents		3,598	0	3,598
		<u>4,800</u>	<u>0</u>	<u>4,800</u>
Total assets		<u>7,052</u>	<u>0</u>	<u>7,052</u>
Current liabilities				
Trade and other payables		(1,325)	0	(1,325)
Current tax liabilities		(101)	0	(101)
Obligations under finance leases		(8)	0	(8)
Bank overdrafts and loans		0	0	0
		<u>(1,434)</u>	<u>0</u>	<u>(1,434)</u>
Net current assets		<u>3,366</u>	<u>0</u>	<u>3,366</u>
Non-current liabilities				
Deferred tax		(5)	0	(5)
Other provisions		(52)	0	(52)
Obligations under finance leases		(21)	0	(21)
		<u>(78)</u>	<u>0</u>	<u>(78)</u>
Net assets		<u>5,540</u>	<u>0</u>	<u>5,540</u>
Shareholders equity				
Called up share capital		986	0	986
Share premium account		2,342	0	2,342
Merger reserve		1,066	0	1,066
Share based payments reserve		758	0	758
Retained earnings		388	0	388
Total shareholders equity		<u>5,540</u>	<u>0</u>	<u>5,540</u>

Reconciliation of shareholders equity at 28 February 2007

	Notes	UK GAAP £'000s	Effects of transition to IFRS £'000s	IFRS £'000s
Non-current assets				
Goodwill		3,804	0	3,804
Intangible assets	1	2,316	315	2,631
Property, plant and equipment	1	515	(315)	200
		<u>6,635</u>	<u>0</u>	<u>6,635</u>
Current assets				
Inventories		56	0	56
Trade and other receivables		683	0	683
Cash and cash equivalents		2,256	0	2,256
		<u>2,995</u>	<u>0</u>	<u>2,995</u>
Total assets		<u>9,630</u>	<u>0</u>	<u>9,630</u>
Current liabilities				
Trade and other payables		(772)	0	(772)
Current tax liabilities		(197)	0	(197)
Obligations under finance leases		(4)	0	(4)
Bank overdrafts and loans		(11)	0	(11)
		<u>(984)</u>	<u>0</u>	<u>(984)</u>
Net current assets		<u>2,011</u>	<u>0</u>	<u>2,011</u>

Non-current liabilities			
Deferred tax	(39)	0	(39)
Other provisions	0	0	0
Obligations under finance leases	(17)	0	(17)
	(56)	0	(56)
<hr/>			
Net assets	8,590	0	8,590
<hr/>			
Shareholders equity			
Called up share capital	1,187	0	1,187
Share premium account	5,968	0	5,968
Merger reserve	1,066	0	1,066
Share based payments reserve	771	0	771
Retained earnings	(402)	0	(402)
Total shareholders equity	8,590	0	8,590

Notes to the reconciliation of shareholders equity

1. Classification of website costs

Website development cost is included within intangibles under IFRS rather than tangible assets as is the norm under UK GAAP. The effect of this is to reclassify website development cost of £234,964 at March 2007, £205,296 at August 2006 and £314,574 at February 2007 from tangible assets to intangible assets. Total net assets remain unchanged by this adjustment.

ENDS