

Sport Media Group Plc

IFRS Transition Document

April 2008

Transition to IFRS

Sport Media Group plc ("SMG". AIM: SPMG.L), the integrated multi-media group which publishes the Sunday and Daily Sport newspapers and digital content for internet and mobile phone channels, today publishes its interim results for the six months ended 31 January 2008.

The interim results for the six months ended 31 January 2008 have been prepared in accordance with accounting policies which are based on the recognition and measurement principles of International Financial Reporting Standards ('IFRS') expected to be adopted and effective at 31 July 2008, the first full annual reporting date at which SMG is required to apply IFRS. As a result, the comparative figures for both the previous half year and the full year ended 31 July 2007 have been restated to comply with IFRS. The new accounting policies and reconciliations of the differences between the IFRS results and the results as previously published are set out in this document.

The information is set out as follows:

1. Nature of operations and general information
2. Summary of significant accounting policies
3. Business combinations
4. Explanation of transition to IFRS and reconciliations

Simon Hume Kendal

Chairman

21 April 2008

1. Nature of operations and general information

Sport Media Group plc ("SMG") is the integrated multi-media group which publishes the Sunday and Daily Sport newspapers and digital content for internet and mobile phone channels.

The Group was established in 1999 and has subsequently grown significantly both organically and through acquisition. On 5 September 2007 the Group completed the acquisition of Sport Newspapers Limited for £50 million.

Sport Media Group plc is the Group's ultimate parent company. It is incorporated and domiciled in Great Britain. The address of Sport Media Group plc's registered office is Ramillies House, 2 Ramillies Street, London W1F 7LN. The Group's principal places of business are 26 Thames Road, Barking, Essex IG11 0JA and 19 Great Ancoats Street, Manchester M60 4BT. Sport Media Group plc's shares are listed on the AIM of the London Stock Exchange.

The consolidated interim financial statements of SMG are presented in Pounds Sterling, which is also the functional currency of the Group.

Sport Media Group Plc's consolidated financial statements were prepared in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) until 31 July 2007. The date of transition to IFRS was 1 August 2006, as a result, comparative figures in respect of 2007 have been restated to reflect changes in accounting policies as a result of adoption of IFRS. The disclosures required by IFRS 1 concerning the transition from UK GAAP to IFRS are given in the reconciliation schedules, presented and explained in notes (a) to (e) at the end of this document.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of consolidated interim financial statements.

2. Summary of significant accounting policies

The following sets out the Group's new accounting policies for IFRS reporting. These are presented in full.

Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as adopted by the EU as issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared under the historical cost convention except that they have been modified to include the revaluation of certain non-current assets/ financial assets and liabilities.

The measurement bases and principal accounting policies of the Group are set out below. The policies have changed from the previous year when the financial statements were prepared under applicable United Kingdom Generally Accepted Accounting Principles (UK GAAP). The comparative information has been restated in accordance with IFRS. The changes to accounting policies are explained in part 4, together with the reconciliation of opening balances. The date of transition to IFRS was 1 August 2006 (transition date).

The Group has taken advantage of certain exemptions available under IFRS 1 First-time adoption of International Financial Reporting Standards. The exemptions used are explained under the respective accounting policy.

The accounting policies that have been applied in the opening balance sheet have also been applied throughout all periods presented in these financial statements except that, as permitted by IFRS 1, the comparative period does not reflect the change in accounting policies required on first adoption of IAS 32 and IAS 39. These accounting policies comply with each IFRS that is mandatory for accounting periods ending on 31 January 2008.

Basis of consolidation

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

Unrealised gains on transactions between the Group and its subsidiaries are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Acquisitions of subsidiaries are dealt with by the purchase method. The purchase method involves the recognition at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies. Goodwill is stated after separating out identifiable intangible assets. Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets (including intangibles) of the acquired subsidiary at the date of acquisition.

Business combinations completed prior to date of transition to IFRS

The Group has elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to the date of transition 1 August 2006.

Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP. Assets and liabilities are recognised at the date of transition as they would be recognised under IFRS. They are measured using their UK GAAP carrying amounts immediately post-acquisition as deemed cost under IFRS. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions. The transitional provisions used for past business combinations apply equally to all past acquisitions.

Goodwill

Goodwill representing the excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is capitalised and reviewed annually for impairment. Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the income statement.

Goodwill written off to reserves prior to the date of transition to IFRS remains in reserves. There is no re-instatement of goodwill that was amortised prior to the transition to IFRS. Goodwill previously written off to reserves is not written back to the income statement on subsequent disposal.

Intangible assets

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the

acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

The acquisitions of Strictly Broadband and Sport Newspapers have resulted in the following categories of intangible assets being identified:

- newspaper mastheads, publishing rights and imprints
- trade names and marks
- customer relationships and contracts

The Group has developed a number of software applications to facilitate the delivery of content/services to mobile phones - to deliver content to end consumers mobile phones, bill the SIM on the phone for the transaction via the mobile operator, produce usage statistics for clients, facilitate the selection and presentation of content to mobile phone WAP browsers and enable clients to create tailored mobile phone content portals. Development costs which meet the recognition criteria set out in IAS 38 are capitalised in the balance sheet.

In addition, the Group owns certain licensing rights and related customer databases. These assets are recognised in the balance sheet at cost less accumulated amortisation.

The estimated useful lives of intangibles assets are as follows:

Newspaper mastheads, publishing rights and imprints and trade names and marks	indefinite lives
Customer relationships and contracts	5 to 7 years
Photographic and other content rights	10 years
Licensing rights and related customer databases	licence term
Software development costs	5 years
Website development costs	4 years

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation, net of depreciation and any provision for impairment. Leasehold property is included in property, plant and equipment only where it is held under a finance lease.

Disposal of assets

The gain or loss arising on the disposal of an asset is determined as the difference between the disposal proceeds and the carrying amount of the asset and is recognised in the income statement. The gain or loss arising from the sale or revaluation of held for sale assets is

included in "other income" or "other expense" in the income statement. Any revaluation surplus remaining in equity on disposal of the asset is transferred to the profit and loss reserve.

Depreciation

Depreciation is calculated to write down the cost less estimated residual value of all property, plant and equipment other than freehold land, by equal annual instalments reflecting the basis of consumption of the assets over their estimated useful economic lives. The rates generally applicable are:

Web based file servers	33.33%
Plant and machinery	20.00%
Fixtures and fittings	20.00%

Impairment testing of goodwill, other intangible assets and property, plant and equipment

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As at the acquisition date any goodwill acquired is allocated to each of the cash generating units expected to benefit from the business combination. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, including goodwill, an impairment loss is recognised.

Intangible assets and property plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate the carrying values may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of intangible assets and property, plant and equipment is the greater of net selling price 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 an asset that does not generate largely independent cash inflows, the recoverable amount is determined by the cash-generating unit to which the asset belongs.

Revenue

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding VAT and trade discounts. Revenue is recognised upon the performance of services or transfer of the risks and rewards of ownership to the customer, where the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Group, and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The Group has three principal revenue streams as detailed below:

- Mobile telephony (premium phone lines and SMS marketing), dialer revenues, internet and website hosting revenues
- Newspaper wholesale revenues
- Newspaper advertising revenues

Revenue from the sale of digital content, chat and internet based video on demand access is recognised generally in the month in which the customer accesses the content via a premium phone line or online. Revenue from the sale of content via premium phone lines is recognised generally in the month in which the customer accesses the content via a premium phone line. Revenue from the provision of website hosting and from SMS marketing services is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the services, which is generally on delivery of the hosting or SMS marketing services according to contractually agreed delivery schedules.

Revenues from the sale of Sport Newspaper titles through wholesalers are invoiced in arrears based on daily sales of the relevant titles less returns and recognised in the period to which the sales relate.

Revenues from classified advertising are generally recognised when the advertisement is placed, with payment having been received in advance. Revenues from display advertising are generally recognised and invoiced in arrears following the publication of the advertisement.

Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards related to the ownership of the leased asset. The related asset is recognised at the time of inception of the lease at the fair value of the leased asset or, if lower, the present value of the minimum lease payments plus incidental payments, if any, to be borne by the lessee. A corresponding amount is recognised as a finance leasing liability. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the income statement over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the income statement on a straight-line basis over the lease term. Lease incentives are spread over the term of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of ordinarily interchangeable items are assigned using the first in, first out cost formula.

Taxation

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

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. 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. In addition, tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are 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.

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 (such as the revaluation of land) in which case the related deferred tax is also charged or credited directly to equity.

Financial liabilities

The objectives of the Group's treasury activities are to manage financial risk, secure cost-effective funding where necessary and minimise adverse effects of fluctuations in the financial markets on the value of the Group's financial assets and liabilities, on reported profitability and on cash flows of the Group.

The Group's principal financial instruments used for fundraising are bank loans, loan notes and invoice discounting facilities. The Group has various other financial instruments such as cash, trade receivables and trade payables that arise directly from its operations.

Financial liabilities categorised as at fair value through profit or loss are re-measured at each reporting date at fair value, with changes in fair value being recognised in the income statement. All other financial liabilities are recorded at amortised cost using the effective interest method, with interest-related charges recognised as an expense in finance cost in the income statement. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to the income statement on an accruals basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

A financial liability ceases to be recognised only when the obligation is extinguished, that is, when the obligation is discharged or cancelled or expires.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised in the finance cost line in the income statement

Borrowing costs

Loans are carried at cost, net of un-amortised issue costs of debt. These costs are amortised over the loan term.

Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The Group currently does not use derivative financial instruments to manage or hedge financial exposures or liabilities.

Dividends

Dividend distributions payable to equity shareholders are included in "other short term financial liabilities" when the dividends are approved at the annual general meeting prior to the balance sheet date.

Equity

Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Capital redemption reserve" represents the reserve created at the time of a share buyback in 2005.
- "Share option reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Profit and loss reserve" represents retained profits.

Employee benefits

The Group operates defined contribution schemes in respect of certain employees. The pension costs charged against operating profit are the contributions payable to the scheme in respect of the accounting period. The assets of the schemes are held separately from those of the Group.

Share-based payments

The Company's employee share schemes allow the employees of the Group to acquire shares in the Company. The cost of equity-settled transactions with employees is measured by reference to the fair value of the award at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date at which the relevant employees become fully entitled to the award. Fair value is appraised at the grant date and excludes the impact on non-market vesting conditions such as profitability and sales growth targets, using an appropriate pricing model for which the assumptions are approved by the Directors. In valuing equity-settled transactions, only vesting conditions linked to the market price of the shares of the Company are considered.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non market conditions, number of equity instruments that will ultimately vest or in the case of an instrument subject to a market condition, be treated as vesting described above. The movement in the cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated based on prior experience and assessment of the current economic environment.

Critical judgements in applying the accounting policies

In the process of applying the accounting policies, described above, management has made the following judgements that have the most significant effect on the amounts recognized in the financial statements:

Acquisitions: Judgements have been made in respect of the identification of intangible assets based on pre-acquisition forecasts, analysis and negotiations. The initial valuations of acquired intangible assets will be reviewed for impairment on an annual basis and more often if necessary.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Impairment of intangible assets: Determining whether intangible publishing rights and titles in respect of print publishing activities, and intellectual property in respect of online activities, are impaired requires an estimation of the value in use of the cash generating units to which these intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating units and a suitable discount rate in order to calculate the present value.

3. Business combinations

Fair value adjustments have been made to the book value of the assets and liabilities of Strictly Broadband Limited, which was acquired in December 2006 and previously accounted for under UK GAAP. Further details are set out below and in the reconciliations in Note 4. The fair values below are preliminary and will be further reviewed based on additional information available at 31 July 2008.

On 4 December 2006 the Company announced that it had acquired a controlling interest in Strictly Broadband by increasing its then existing stake from 16% to 55.5%. Strictly

Broadband has been consolidated as a subsidiary of the Group with effect from the date of acquisition of the controlling interest as follows:

	Book Value £'000s	Fair value adjustments £'000s	Provisional fair value £'000s
Trade names, domain names, customer relationships and contracts	-	150	150
Property, plant and equipment	25	-	25
Trade and other receivables	240	-	240
Cash	182	-	182
Trade and other payables	(485)	-	(485)
Minority interest	12	-	12
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Net liabilities acquired (55.5%)	(26)	150	124
Goodwill			200

Consideration			324
			=====
Satisfied by:			
Cash			158
Shares issued			106
Transfer from fixed asset			32
Acquisition costs			28

			324
			=====

The material provisional fair value adjustments to the net assets of Strictly Broadband were calculated as follows:

Intangible assets in the form of the trade name and marks of Strictly Broadband as well as certain existing customer relationships and contracts are recognised based on the Directors' assessment of their value taking into consideration the future cash flows that are expected to be derived from them.

4. Explanation of transition to IFRS and reconciliations

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out below.

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 interim financial statements have been prepared on the basis of taking the following exemptions:

business combinations prior to 1 August 2006, the Group's date of transition to IFRS, have not been restated to comply with IFRS 3 "Business Combinations". Goodwill arising from these business combinations of £Nil has not been restated.

Reconciliation of equity at 1 August 2006

	UK GAAP £'000s	a £'000s	b £'000s	c £'000s	d £'000s	e £'000s	IFRS £'000s
Non-current assets							
Property, plant and equipment	106	-	-	-	-	-	106
Other intangible assets	-	-	-	-	216	-	216
Investments	32	-	-	-	-	-	32
Total non-current assets	138	-	-	-	216	-	354
Current assets							
Trade and other receivables	2,020	-	-	-	-	(162)	1,858
Cash and cash equivalents	3,421	-	-	-	-	-	3,421
Total current assets	5,441	-	-	-	-	(162)	5,279
Total assets	5,579	-	-	-	216	(162)	5,633
Current liabilities							
Trade and other payables	1,129	-	-	-	-	-	1,129
Short-term borrowings	1	-	-	-	-	-	1
Current tax payable	668	-	-	-	-	-	668
Total current liabilities	1,798	-	-	-	-	-	1,798
Non-current liabilities							
Deferred tax	-	-	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-	-	-
Total liabilities	1,798	-	-	-	-	-	1,798
Net assets	3,781	-	-	-	216	(162)	3,835
Equity							
Share capital	96	-	-	-	-	-	96
Share premium account	1,161	-	-	-	-	-	1,161
Other reserves	100	-	-	-	-	-	100
Share option reserve	-	8	-	-	-	-	8
Retained earnings	2,424	(8)	-	-	216	(162)	2,470
Total equity	3,781	-	-	-	216	(162)	3,835

Reconciliation of equity at 31 January 2007

	UK GAAP £'000s	a £'000s	b £'000s	c £'000s	d £'000s	e £'000s	IFRS £'000s
Non-current assets							
Property, plant and equipment	122	-	-	-	-	-	122
Customer relationships and contracts	-	-	-	145	-	-	145
Goodwill	313	-	3	(150)	-	-	166
Other intangible assets	483	-	-	-	263	-	746
Deferred tax assets	-	8	-	-	-	-	8
Total non-current assets	918	8	3	(5)	263	-	1,187
Current assets							
Trade and other receivables	2,435	-	-	-	-	(162)	2,273
Cash and cash equivalents	2,387	-	-	-	-	-	2,387
Total current assets	4,822	-	-	-	-	(162)	4,660
Total assets	5,740	8	3	(5)	263	(162)	5,847
Current liabilities							
Trade and other payables	1,263	-	-	-	-	-	1,263
Short-term borrowings	326	-	-	-	-	-	326
Current tax payable	370	-	-	-	22	-	392
Total current liabilities	1,959	-	-	-	22	-	1,981
Non-current liabilities							
Deferred tax	-	-	-	-	-	-	-
Total non-current liabilities	-	-	-	-	-	-	-
Total liabilities	1,959	-	-	-	22	-	1,981
Net assets	3,781	8	3	(5)	241	(162)	3,866
Equity							
Share capital	96	-	-	-	-	-	96
Share premium account	1,262	-	-	-	-	-	1,262
Other reserves	100	-	-	-	-	-	100
Share option reserve	-	28	-	-	-	-	28
Retained earnings	2,309	(20)	3	(5)	241	(162)	2,366
Equity shareholders' funds	3,767	8	3	(5)	241	(162)	3,852
Minority interest	14	-	-	-	-	-	14

Total equity	3,781	8	3	(5)	241	(162)	3,866
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Reconciliation of equity at 31 July 2007

	UK						IFRS
	GAAP	a	b	c	d	e	IFRS
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Non-current assets							
Property, plant and equipment	126	-	-	-	-	-	126
Customer relationships and contracts	-	-	-	130	-	-	130
Goodwill	334	-	16	(150)	-	-	200
Other intangible assets	467	-	-	-	303	-	770
Investments	3	-	-	-	-	-	3
Deferred tax assets	-	20	-	-	-	-	20
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Total non-current assets	930	20	16	(20)	303	-	1,249
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Current assets							
Inventories	35	-	-	-	-	-	35
Trade and other receivables	4,552	-	-	-	-	(162)	4,390
Cash and cash equivalents	1,704	-	-	-	-	-	1,704
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Total current assets	6,291	-	-	-	-	(162)	6,129
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Total assets	7,221	20	16	(20)	303	(162)	7,378
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Current liabilities							
Trade and other payables	1,518	-	-	-	-	-	1,518
Current tax payable	873	-	4	(6)	43	-	914
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Total current liabilities	2,391	-	4	(6)	43	-	2,432

Non-current liabilities							
Deferred tax	-	-	-	-	-	-	-
Total non-current liabilities							
	-	-	-	-	-	-	-
Total liabilities							
	2,391	-	4	(6)	43	-	2,432
Net assets							
	4,830	20	12	(14)	260	(162)	4,946
Equity							
Share capital	96	-	-	-	-	-	96
Share premium account	1,187	-	-	-	-	-	1,187
Other reserves	100	-	-	-	-	-	100
Share option reserve	-	68	-	-	-	-	68
Retained earnings	3,416	(48)	12	(14)	260	(162)	3,464
Equity shareholders' funds							
	4,799	20	12	(14)	260	(162)	4,915
Minority interest	31	-	-	-	-	-	31
Total shareholders' funds							
	4,830	20	12	(14)	260	(162)	4,946

Reconciliation of profit for the six months ended 31 January 2007

	UK					
GAAP	a	b	c	d	e	IFRS

	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Continuing operations							
Revenue	5,109	-	-	-	-	-	5,109
Cost of sales	(2,368)	-	-	-	72	-	(2,296)

Gross profit	2,741	-	-	-	72	-	2,813
Administrative costs	(729)	(20)	-	(5)	(22)	-	(776)

Operating profit	2,012	(20)	-	(5)	50	-	2,037
Interest received	65	-	-	-	-	-	65
Finance costs	-	-	-	-	-	-	-

Profit before tax	2,077	(20)	-	(5)	50	-	2,102
Income tax expense	(644)	8	-	-	(22)	-	(658)

Profit for the period from continuing operations	1,433	(12)	-	(5)	28	-	1,444
Minority interest	(10)	-	-	-	-	-	(10)

Profit for the period	1,423	(12)	-	(5)	28	-	1,434
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Reconciliation of profit for the year to 31 July 2007

	UK						
	GAAP	a	b	c	d	e	IFRS
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Continuing operations							

Revenue	11,363	-	-	-	-	-	11,363
Cost of sales	(4,505)	-	-	-	144	-	(4,361)
Gross profit	6,858	-	-	-	144	-	7,002
Administrative costs	(1,658)	8	16	(20)	(57)	-	(1,711)
Operating profit	5,200	8	16	(20)	87	-	5,291
Interest received	109	-	-	-	-	-	109
Finance costs	(2)	-	-	-	-	-	(2)
Profit before tax	5,307	8	16	(20)	87	-	5,398
Income tax expense	(1,644)	20	(4)	6	(43)	-	(1,665)
Profit for the period from continuing operations	3,663	28	12	(14)	44	-	3,733
Minority interest	(43)	-	-	-	-	-	(43)
Profit for the period	3,620	28	12	(14)	44	-	3,690
	=====	=====	=====	=====	=====	=====	=====

Notes to the reconciliations

a) Under UK GAAP, the Group applied FRS 20, "Share-Based Payment" for the first time in the year ended 31 July 2007. However, under IFRS 2, the equivalent international standard, retrospective adjustments are required at 31 July 2006 and 31 January 2007. The values of these changes were £8,000 and £20,000 respectively before adjustments for deferred tax. For presentational purposes the resultant entries are presented within equity as movements on a share option reserve.

b) Goodwill recognised by the Group on the acquisition of Strictly Broadband prior to 31 July 2007 under UK GAAP was amortised over a period of 15 years. Under IFRS goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charged in 2007 in accordance with UK GAAP has been written back.

c) The Group acquired a controlling interest in Strictly Broadband on 4 December 2006. Application of IFRS 3 to this business combination resulted in the identification of a number of customer relationships and contracts. Under IFRS these have been recognised separately in the balance sheet at their fair value at the date of the combination. Under UK GAAP these intangible assets were subsumed within goodwill.

The result of these adjustments is to decrease goodwill and increase intangible assets at the combination date. At 31 January 2007 and 31 July 2007 the carrying value of other intangible assets was increased by £145,000 and £130,000 respectively. The value of goodwill at 31 January 2007 and 31 July 2007 was reduced by £150,000.

Goodwill recognised by the Group on the acquisitions of the Strictly Broadband under UK GAAP was amortised over a period of 15 years. Under IFRS goodwill is not amortised, but tested annually for impairment. The goodwill amortisation charge recognised in accordance with UK GAAP in 2007 has been written back. However, intangible assets other than goodwill identified on these business combinations in accordance with IFRS as described above are amortised in accordance with the accounting policy explained in note 3. The result of these adjustments is to increase the amortisation charge in the income statement for the six months ending 31 January 2007 by £5,000 and by £20,000 for the year ending 31 July 2007 and increase the carrying value of total intangible assets by the same amounts.

d) Under UK GAAP the Group expensed the cost of developing its bespoke software applications as they were incurred. Under IFRS the development costs which meet the recognition criteria set out in IAS38 are capitalised in the balance sheet and amortised over their expected useful life of five years.

The result of these adjustments is to increase other intangible assets at 1 August 2006 by £216,000. At 31 January 2007 and 31 July 2007 the carrying value of other intangible assets was increased by a further £72,000 less amortisation charged of £25,000 and at 31 July 2007 the carrying value of other intangible assets was increased by a further £72,000 less further amortisation charged of £32,000.

e) In carrying out an assessment of the fair values of financial instruments at the date of transition to IFRS an adjustment was made to reduce the carrying value of certain trade receivables by £162,000.

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 interim financial statements reports movements in cash and cash equivalents.

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