Telspec plc

Annual Report and Accounts 2008

Results at a Glance

	2008 £'000	2007 £'000
Turnover	**483**	3,436
Operating loss	**(633)**	(780)
Net interest receivable	**85**	112
Loss on ordinary activities before tax	**(548)**	(668)
Tax	**-**	52
Loss after tax	**(548)**	(616)
Basic and diluted loss per ordinary share	**(1.4p)**	(1.5p)
Non-current assets	**3**	9
Working capital including provisions	**(78)**	1,003
Cash and cash equivalents	**3,128**	2,767
Shareholders' Funds	**3,053**	3,779
Shareholders' funds per equity share	**7.5p**	9.3p

Contents

Chairman's Statement

Introduction

During 2008 the Group completed the delivery of its major contract in Costa Rica and received full payment under the contract. The Group continued to meet its warranty and after-sales obligations to existing customers but made no significant sales.

In last year's Chairman's statement I announced that it was our intention to look for possible merger and acquisition opportunities. A search was carried out in the second half of the year but I have to report that despite extensive meetings and discussions the Company has been unsuccessful in finding a suitable merger or acquisition opportunity. After due consideration and after discussions with its largest shareholders, the Board has decided that in the current economic situation it is in the best interests of shareholders to return excess capital to shareholders. Consequently, as was announced on 26 January 2009, the Board is exploring a number of options to achieve this while honouring its obligations under existing contracts.

Trading in the Company's shares on the Official List was cancelled on 18 February 2008 and trading in the shares on the AIM of the London Stock Exchange commenced on the same day.

2008 Results

Sales in 2008 were £0.5m (2007: £3.4m). A trading loss of £0.4m was incurred during the year (2007: loss of £0.4m) leading to an operating loss of £0.6m (2007: loss of £0.8m). The operating loss is stated after redundancy costs of £0.2m (2007: £0.1m) and exceptional transaction costs in respect of circulars in 2007 of £0.3m.

The final payment from ICE, the Group's customer in Costa Rica, was received in December 2008 and the contract is now completed, subject to providing warranty and repair services.

The Group has no significant orders.

Dividend

As in recent years the Company is unable to pay a dividend.

Chairman's Statement (continued)

Outlook and Prospects

As noted above, the Company continues to fulfil its contractual obligations and to make losses. The Board is considering how best to return excess cash to shareholders.

The Group cannot foresee any further large orders being received and does not have the resources available to develop new products.

The number of full time equivalent staff employed at the year end was 10 compared to 17 a year earlier. Notwithstanding the reductions in staff and the continued reduction in costs, the Board is committed to supporting Telspec customers fully as regards warranty, service and repair and other obligations of the Group.

Board

There was no change in the composition of the Board during 2008. The directors throughout the year were David Steeds, Fred White and Shiv Rakkar.

Staff

The Board is extremely grateful to the staff for their loyalty and hard work during these very difficult times.

David Steeds
Chairman
24 March 2009

Business Review

Background to the business

The Group is not developing new products and will only take on new profitable business. Its strategy is to maximise its eventual return to shareholders and to do this it has to manage the level of cash burn.

In 2008 the Group focused on obtaining formal acceptance of product delivered in the previous year, delivering final tranches of old contracts and providing support services.

At the same time it has looked to reduce its cost base without reducing the level of service offered to customers. The Group continues to offer its existing product range and aims satisfactorily to complete all support service obligations under its existing contracts. However, it no longer has the capability to complete substantial projects and operations are gradually being wound down.

Financial Performance

Group sales were down to £0.5m in 2008 from £3.4m in 2007, a reduction of 86%.

Gross profit as a percentage of sales was 28.2% in 2008 compared to 34.9% in 2007. The reduction in turnover resulted in a reduction in gross profit to £0.1m from £1.2m in 2007.

Operating loss of £0.6m was marginally better than 2007's operating loss of £0.8m.

Administrative overheads reduced to £1.0m from £1.6m in 2007, a reduction of 38%.

Key Performance Indicators

Free cash held at 31 December 2008 was £2.8m (2007: £2.6m). Cash held as collateral against outstanding performance bonds was £0.3m (2007: 0.2m).

Shareholders equity at 31 December 2008 was £3.1m (2007: 3.8m).

Key non-financial performance indicators

There are no key non-financial performance indicators used by the Directors in managing the business.

Principal risks and uncertainties

The Group has a number of risks and uncertainties which are identified below:-

Performance Bonds - the Group is required to provide performance bonds to guarantee the successful completion of all of its major contracts. Bonds outstanding and the progress of the contracts are carefully monitored to ensure the release of bonds as early as possible.

Foreign exchange - the Group transacts in currencies other than sterling and its results are therefore subject to exchange rate fluctuation. The Group often buys and sells in the same currencies which creates a natural hedge and reduces this risk. However, a substantial amount of the cash balances held in the Group at the year end are in sterling.

Business Review (continued)

Principal risks and uncertainties (continued)

Warranty and repair obligations - The Group still has ongoing warranty and repair obligations on certain of its contracts through to 2014. The Board is aware of the risks that customers could return products for non-performance or repair although the Group has always had a low level of returns under warranty.

Fred White
Group Finance Director
24 March 2009

Directors and Advisers

Executive Director

Fred White (aged 64) – Chief Executive Officer/Group Finance Director

Fred White joined Telspec over 22 years ago and is a Chartered Management Accountant and Chartered Certified Accountant. He was Group Finance Director at the time of Telspec's flotation in 1993 and has been Group Company Secretary since that date. His previous experience includes working for Reed International Plc and APV, part of Invensys Plc. He is currently Chief Executive Officer and Group Finance Director.

Non-executive Directors

David Steeds (aged 60) – Non-executive Chairman

David Steeds joined the Board as Non-executive Chairman on 29 October 2007. He is a Chartered Accountant and holds a number of non-executive directorships including Tinci Holdings Ltd and Jetion Holdings Ltd, both quoted on AIM.

He was part of the team that built Serco Group plc into one of the UK's leading support services businesses before becoming Chief Executive of the Private Finance Panel, the agency of HM Treasury responsible for the PFI. He was responsible for establishing the technology commercialisation activities of QinetiQ Group plc and he has been involved as Non-executive Director in the AIM flotation of four companies, including the two referred to above, as well as chairing The Gourmet Pizza Company Limited before its sale to Pizza Express.

Shiv Rakkar (aged 73) – Non-executive Director

Shiv Rakkar originally joined Telspec in 1998 in an executive capacity and oversaw the successful restructuring and cost cutting exercise of the Company's business at that time. He has held both executive and non-executive positions in the Company but left the Company due to family reasons in September 2005. He rejoined the Company in October 2006 as CEO and was appointed Executive Chairman from 1 December 2006. On the appointment of David Steeds as Non-executive Chairman on 29 October 2007 he reverted to being Chief Executive Officer. During 2008 he stepped down as Chief Executive Officer and is currently a Non-executive Director.

Shiv has been involved in the telecommunications industry for over 43 years. He has had extensive experience in a wide range of aspects of the industry having worked in research and development, creating system specifications and in contracts and procurements. Shiv also has direct management and operational experience with organisations such as GEC, Telstra, the Australian Defence Department, and several diverse departments within Australia's Victorian Government including telecommunications and computing services.

Directors and Advisers (continued)

Secretary

Fred White

Registered Office

St Paul's House
Warwick Lane
London
EC4M 7BP

Nominated Adviser and Stockbroker

Arbuthnot Securities Limited
Arbuthnot House
20 Ropemaker Street
London
EC2Y 9AR

Independent Auditors

Moore Stephens LLP
Chartered Accountants
St Paul's House
Warwick Lane
London
EC4M 7BP

Solicitors

Lawrence Graham LLP
4 More London Riverside
London
SE1 2AU

Bankers

Barclays Bank PLC
26th Floor
Churchill Place
London
E14 5HP

Registrars

Capita Registrars Ltd
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 December 2008.

Principal activities and business review

Telspec plc is the parent company of a group of companies engaged in the manufacture and sale of advanced telecommunications equipment.

Other matters which may be material for an appreciation of the Group's activities and the state of the Group's affairs and potential future developments are contained in the Chairman's Statement and the Business Review.

Results and Dividends

Group loss before tax for the year ended 31 December 2008 amounted to £548,000 (2007: loss of £668,000). No final dividend is being recommended (2007: £nil).

Substantial Interests in Share Capital

At 24 March 2009 the Company had been notified of the following disclosable interests, which represented 3 per cent. or more of the existing issued ordinary share capital:

	No. of shares	%
Faraday Holdings Ltd	17,000,000	41.97
Peter Gyllenhammar	10,600,500	26.17

There were no changes of Directors during the year.

The names of the Directors at the date of this report are as follows:

F C White	- Chief Executive Officer/Group Finance Director
D W H Steeds	- Non-executive Chairman
S D S Rakkar	- Non-executive Director

Directors' interests

The beneficial shareholdings at 31 December 2008 and 1 January 2008 of the Directors who held office at 31 December 2008 were as follows:

	31 December 2008 Number	**1 January 2008 Number**
F C White	10,000	10,000

Neither of the other directors has a beneficial interest in the Company.

Other than service contracts or as stated in Note 8 in the financial statements, no Director has, or has had during the financial year, any interest in any significant contract, with either the Company or any of its subsidiaries.

Directors' Report (continued)

Employment Policy

The Group maintains close consultation with its employees in matters likely to affect their interests and is committed to involve them in the performance and development of the Group.

Corporate Governance

On 18 February 2008 the Company moved its listing from the Official List to the Alternative Investment Market (AIM). As an AIM quoted company, Telspec is no longer required to comply with the provisions of the Combined Code but the Company is still committed to the effective implementation of the principles of good corporate governance insofar as reasonably practicable.

The Board consults its professional advisers frequently and invites them to attend board meetings when matters of particular importance or sensitivity are discussed, such as Directors' remuneration, contracts and announcements.

Because of the small size of the Company, audit and remuneration matters are dealt with by the full Board. In the case of remuneration, the meeting would not include the director whose remuneration was under discussion.

Company's Policy and Practice on the Payment of Creditors

Subsidiary companies agree terms and conditions with their suppliers for their business transactions in accordance with local laws and accepted practice. Payment is normally made in accordance with these terms and conditions.

Group trade creditors represent 31 days purchases (2007: 32 days).

Telspec plc (the Company), has no trade creditors.

Auditors

Moore Stephens LLP has expressed their willingness to continue in office and a resolution to re-appoint them and authorising the Directors to fix their remuneration will be proposed at the Annual General Meeting.

Each of the persons who are directors at the time when this report is approved confirms that:

(a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and of the Company's auditors for that purpose, in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Approved by the Board of Directors
and signed on behalf of the Board

Fred White
Chief Executive Officer and Finance Director
24 March 2009

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the Consolidated Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare group and parent company financial statements for each financial year. The Directors are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU.

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of both the Group and the parent company and of the profit or loss of the Group and Company for that period.

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;

- make judgements and estimates that are reasonable and prudent;

- state whether International Financial Reporting Standards as adopted by the EU have been followed, subject to any material departures being disclosed and explained in the financial statements;

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditors' Report to the Shareholders of Telspec plc

We have audited the group and parent company financial statements (the "financial statements") of Telspec plc for the year ended 31 December 2008 which comprises the group and parent company income statement, the group and parent company balance sheets, the group and the parent company cash flow statements, the group and the parent company statement of changes in shareholders' equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's Statement and Business Review that is cross referred from the Business Review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the Chairman's Statement and the Business Review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' Report to the Shareholders of Telspec plc (continued)

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's and the parent company's loss for the year then ended;

- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulations; and

- the information given in the Directors' Report is consistent with the financial statements.

Moore Stephens LLP
Registered Auditors
Chartered Accountants

St Paul's House
Warwick Lane
London
EC4M 7BP

24 March 2009

Consolidated and Company Income Statements

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Sales	4	483	3,436	120	200
Cost of sales		(347)	(2,238)	-	-
Gross profit		**136**	**1,198**	**120**	**200**
Other income	9	531	364	-	-
Selling and marketing expenses		(132)	(355)	-	-
Administrative expenses		(965)	(1,566)	(177)	(310)
Other operating expenses	7	(203)	(421)	-	-
Impairment provision	7	-	-	(781)	(1,053)
Operating loss	6	**(633)**	**(780)**	**(838)**	**(1,163)**
Net interest receivable	10	85	112	104	123
Loss before taxation		**(548)**	**(668)**	**(734)**	**(1,040)**
Taxation	11	-	52	-	-
Loss after taxation		**(548)**	**(616)**	**(734)**	**(1,040)**
Basic and diluted loss per ordinary share	12	**(1.4p)**	**(1.5p)**	**-**	**-**

Consolidated and Company Balance Sheets

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Non current assets					
Property, plant and equipment	13	2	8	-	-
Investments	14	1	1	739	1,427
		3	**9**	**739**	**1,427**
Current assets					
Inventories	15	20	138	-	-
Trade and other receivables	16	166	1,728	1,972	2,083
Cash and cash equivalents	23	3,128	2,767	2	-
		3,314	**4,633**	**1,974**	**2,083**
Total assets		**3,317**	**4,642**	**2,713**	**3,510**
Current liabilities					
Trade and other payables	17	(176)	(735)	(59)	(122)
Provisions	18	(35)	(56)	-	-
		(211)	**(791)**	**(59)**	**(122)**
Net current assets		**3,103**	**3,842**	**1,915**	**1,961**
Non-current liabilities					
Provisions	18	(53)	(72)	-	-
Net assets		**3,053**	**3,779**	**2,654**	**3,388**
Equity					
Called up share capital	20	10,125	10,125	10,125	10,125
Share premium account	21	10,419	10,419	10,419	10,419
Merger reserve	21	(6,930)	(6,930)	-	-
Other reserves	21	361	361	-	-
Cumulative translation reserve	21	(277)	(99)	-	-
Profit and loss account	21	(10,645)	(10,097)	(17,890)	(17,156)
		3,053	**3,779**	**2,654**	**3,388**

Approved and authorised for issue by the Board of Directors on 24 March 2009
Signed on behalf of the Board of Directors

Fred White
Chief Executive Officer and Finance Director

Consolidated and Company Statements of Changes in Shareholders' Equity

Group

	Share capital £'000	Other reserves £'000	Cumulative translation adjustments £'000	Accumulated loss £'000	Total equity £'000
At 1 January 2007	**10,125**	**5,074**	**(21)**	**(10,705)**	**4,473**
Currency translation adjustments	-	-	(78)	-	(78)
Release of revaluation reserve on disposal of asset	-	(1,224)	-	1,224	-
Loss for the period	-	-	-	(616)	(616)
At 31 December 2007	**10,125**	**3,850**	**(99)**	**(10,097)**	**3,779**
Currency translation adjustments	-	-	(178)	-	(178)
Loss for the period	-	-	-	(548)	(548)
At 31 December 2008	**10,125**	**3,850**	**(277)**	**(10,645)**	**3,053**

Company

	Share capital £'000	Other reserves £'000	Accumulated loss £'000	Total equity £'000
At 1 January 2007	**10,125**	**10,419**	**(16,116)**	**4,428**
Loss for the period	-	-	(1,040)	(1,040)
At 31 December 2007	**10,125**	**10,419**	**(17,156)**	**3,388**
Loss for the period	-	-	(734)	(734)
At 31 December 2008	**10,125**	**10,419**	**(17,890)**	**2,654**

Consolidated and Company Cash Flow Statements

	Note	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Cash flows from operating activities					
Cash inflow/(outflow) from operations	22	528	(2,887)	(102)	(123)
Interest paid		-	(2)	-	-
Taxation received		-	52	-	-
Net cash inflow/(outflow) used in operating activities		**528**	**(2,837)**	**(102)**	**(123)**
Cash flows from investing activities					
Sale of switch business		-	112	-	-
Purchase of property, plant and equipment		-	(4)	-	-
Proceeds from sale of property, plant and equipment		30	1,685	-	-
Interest received		85	114	104	123
Net cash from investing activities		**115**	**1,907**	**104**	**123**
Exchange losses		(282)	(63)	-	-
Net increase/(decrease) in cash		**361**	**(993)**	**2**	**-**
Cash and cash equivalents at beginning of period		2,767	3,760	-	-
Cash and cash equivalents at end of the period	23	**3,128**	**2,767**	**2**	**-**

Notes to the Consolidated Financial Statements
Year ended 31 December 2008

1 General Information

Telspec plc is a Company incorporated and domiciled in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 9. The nature of the Group's operations and its principal activities are set out in note 4 and in the Business review on pages 6 and 7. The Group includes the Company and all its subsidiaries as disclosed in note 27.

2 Accounting policies

The principal accounting policies are set out below:

(1) Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

(2) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all its subsidiary undertakings made up to 31 December each year. All subsidiaries have a coterminous accounting reference date to the parent Company. The surplus of the nominal value of shares issued over the nominal value of shares acquired arose on the acquisition of Telspec Europe and Telspec Australia Holdings in 1993 and is accounted for as a merger reserve in accordance with the transitional provisions of IFRS 1.

(3) Fixed assets and depreciation

Tangible fixed assets are included in the financial statements at cost, less accumulated depreciation. Depreciation is calculated to write off the cost of tangible fixed assets over their estimated useful lives using the straight-line method at the following annual rates.

Long leasehold land and buildings	2% to 4%
Plant and machinery	10% to 33%
Fixtures, fittings, tools and equipment	20%

(4) Investments

Investments are initially measured at fair value, including transaction costs. Investments in subsidiary undertakings and other investments, classified as available for sale, are measured at fair value. Gains and losses arising from a change in fair value are recognised directly to equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the net profit or loss for the period. Investments are included in non current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Notes to the Consolidated Financial Statements (continued)
Year ended 31 December 2008

2 Accounting policies (continued)

(5) Impairment of assets

Assets are tested for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. An impairment loss is recognised 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 its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(6) Inventories

Inventories are valued at the lower of cost and net realisable value on a first-in, first-out basis. Work in progress and finished goods include appropriate production overheads. Net realisable value is based on the estimated selling price less further costs expected to be incurred to completion and sale.

(7) Foreign currency translation

Transactions in foreign currencies are translated into sterling at the rates ruling at the date of the transaction. Gains and losses on exchange are included as part of the results for the year.

Financial results of the subsidiaries, which are expressed in currencies other than sterling, are translated at the closing rate of exchange in respect of the balance sheet and an average rate in respect of the income statement. Exchange differences arising on translation of the opening balances of subsidiaries at period end rates of exchange and on translation of the income statement at period end rates of exchange are taken directly to reserves.

(8) Trade receivables

Trade receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowance for estimated irrecoverable amounts.

(9) Cash and cash equivalents

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

(10) Deferred taxation

Deferred tax 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 accounted for if it arises from initial recognition of an asset or liability transaction, other than business combination, that at any time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

2 Accounting policies (continued)

(11) Pension costs

The Group contributes into a money purchase scheme. Contributions to the pension schemes are charged to the income statement in the period to which they relate.

(12) Warranties

Provision is made for estimated warranty costs for products sold.

(13) Turnover

Turnover represents the value of goods and services supplied to customers during the period, excluding sales taxes. Sales of goods are recognised when goods are delivered and title has passed, and are stated net of financial discounts.

(14) Reclassifications

Comparative figures have been reclassified to be consistent with current year presentation.

3 Critical Accounting Estimates and Judgements

Estimates and judgements are based upon historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. The Group has made estimates and assumptions concerning the future and these will, by definition, seldom equal the actual result.

The basis for providing for warranties is set out in note 18. By its nature this is only an estimate and could therefore result in material adjustment.

4 Turnover

An analysis of the Group's turnover is as follows:

	2008 **£'000**	**2007** **£'000**
Sale of goods	274	3,272
Turnover from support contracts	209	164
	483	**3,436**

Company sales represent management charges to group companies.

Notes to the Consolidated Financial Statements (continued)

Year ended 31 December 2008

5 Business and segmental analysis

Although the Group operates from four geographical regions these operations are managed autonomously. The sale of advanced telecommunications equipment is considered to be the only business segment. For this reason the only segmental information provided is that for the geographical destination of product supplied as follows:

Geographical analysis

	2008 £'000	2007 £'000
Turnover by geographical destination		
EU	213	839
Costa Rica	(11)	1,654
Middle East	6	229
Australia	275	707
Other	-	7
	483	**3,436**

6 Operating loss

Operating loss is stated after charging/(crediting):

	2008 £'000	2007 £'000
Hire of equipment	4	8
Operating lease rentals – land and buildings	79	86
Fees paid to the Auditors:		
- Statutory audit of Group		
(of which, parent company £10,000 (2007: £10,000))	31	41
- taxation services	7	8
- other services	2	31
Exchange differences	(427)	(163)
Employment costs – see note 8(c)	812	1,124

7 Other operating charges

Group

	2008 £'000	2007 £'000
Redundancy costs	203	100
Legal and professional fees relating to transactions requiring shareholders' approval	-	321
	203	**421**

7 Other operating charges (continued)

Company

Impairment provision is in respect of the Company's carrying value of the investments of subsidiary undertakings £688,000 (2007: £1,053,000) and £93,000 in respect of intercompany debt.

8 Directors and employees

(a) The average number of employees (including Executive Directors) during the year was as follows:

	2008 Number	2007 Number
Production	2	6
Sales and marketing	3	7
Engineering	3	4
Administration	5	7
	13	**24**

(b) Directors' emoluments

The remuneration of Directors who served during the year was as follows:

	Salary and fees £'000	Benefits £'000	Compensation payment £'000	Total 2008 £'000	Total 2007 £'000
Executive Directors					
S. D. S. Rakkar	63	-	22	85	126
F. C. White	85	3	-	88	87
Non-executive Directors					
D. W. H. Steeds (note 1)	12	-	-	12	2
S. D. S. Rakkar	18	-	-	18	-
J. Thomas	-	-	-	-	20
Total	**178**	**3**	**22**	**203**	**235**

The compensation payments set out above include payments in lieu of notice and benefits.

Note 1. A payment of £58,369, which is not included above, was made to Steeds & Co., of which David Steeds is the principal, for corporate advisory work.

Notes to the Consolidated Financial Statements (continued)
Year ended 31 December 2008

8 Directors and employees (continued)

(c) Group employment costs for all employees (including Executive Directors) were as follows:

	2008 £'000	2007 £'000
Wages and salaries	526	896
Social security costs	60	93
Redundancy payments	203	100
Pension costs	23	35
	812	**1,124**

In 2008 there were no key management personnel other than directors. Remuneration paid to key management personnel (excluding directors) in 2007 amounted to £157,000.

9 Other income

	2008 £'000	2007 £'000
Rent receivable	-	19
Net gain on sale of UK property	-	28
Exchange gains	427	163
Unwinding of financial discount on sales recorded in 2007	70	-
Other	34	154
	531	**364**

10 Net interest receivable

Group	2008 £'000	2007 £'000
Interest receivable – bank interest	85	114
Other interest payable	-	(2)
Net interest receivable	**85**	**112**

Company	2008 £'000	2007 £'000
Interest from group companies	104	123

Notes to the Consolidated Financial Statements (continued)

Year ended 31 December 2008

11 Tax credit on loss on ordinary activities

	2008 £'000	2007 £'000
Over provision in relation to prior years	-	52
	-	**52**

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 28% (2007: 30%). The actual tax credit for the current and previous year differs to that based upon the standard rate for the reasons set out in the following reconciliation:

	2008 £'000	2007 £'000
Loss before taxation	(548)	(668)
UK Corporation tax at standard rate 28% (2007: 30%)	(153)	(200)
Effects of:		
Expenses not deductible for tax purposes	5	95
Excess of capital allowances over depreciation	-	21
Prior period adjustments	(139)	52
Losses carried forward	287	84
Current tax credit/(charge)	**-**	**52**

A deferred tax asset has not been recognised in respect of timing differences relating to revenue losses, as there is insufficient evidence that the asset will be recovered. The amount of the asset not recognised, calculated at the standard rate of taxation of 28% is £2.8m (2007: £2.6m).

12 Loss per ordinary share

The calculation of loss per ordinary share is based on the loss on ordinary activities after taxation and on the weighted average number of shares in issue and may be summarised as follows:

	2008	2007
Loss after taxation	**(£548,000)**	**(£616,000)**
Weighted average number of shares:		
For basic and diluted loss per share	**40,500,615**	**40,500,615**
Basic and diluted loss per ordinary share	**(1.4p)**	**(1.5p)**

13 Property, plant and equipment

Group	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Short leasehold land and buildings £'000	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
Cost or valuation:						
At 1 January 2007	**1,687**	**1**	**23**	**2,204**	**1,083**	**4,998**
Exchange adjustment	-	-	-	18	8	26
Additions	-	-	-	1	3	4
Disposals	(1,685)	-	(23)	(127)	(576)	(2,411)
At 31 December 2007	**2**	**1**	**-**	**2,096**	**518**	**2,617**
Exchange adjustment	-	-	-	1	3	4
Additions	-	-	-	-	-	-
Disposals	-	-	-	(1,099)	(299)	(1,398)
At 31 December 2008	**2**	**1**	**-**	**998**	**222**	**1,223**
Accumulated depreciation:						
At 1 January 2007	**-**	**-**	**23**	**2,184**	**1,020**	**3,227**
Exchange adjustment	-	-	-	16	9	25
Charge for year	28	-	-	19	29	76
Disposals	(28)	-	(23)	(127)	(541)	(719)
At 31 December 2007	**-**	**-**	**-**	**2,092**	**517**	**2,609**
Exchange adjustment	-	-	-	(2)	3	1
Charge for year	2	1	-	6	-	9
Disposals	-	-	-	(1,099)	(299)	(1,398)
At 31 December 2008	**2**	**1**	**-**	**997**	**221**	**1,221**
Net book value						
At 31 December 2008	**-**	**-**	**-**	**1**	**1**	**2**
At 31 December 2007	**2**	**1**	**-**	**4**	**1**	**8**

In September 2007 the Group sold its freehold premises in Rochester, Kent for sales proceeds of £1,685,000.

Notes to the Consolidated Financial Statements (continued)
Year ended 31 December 2008

14 Investments

	Available for sale investments £'000	Shares in subsidiary undertakings £'000	Total £'000
Group			
Cost			
At 1 January 2007 and 31 December 2008	**1**	**-**	**1**
Provisions for impairment:			
At 1 January 2007 and 31 December 2008	**-**	**-**	**-**
Net Book Value:			
At 1 January 2007 and 31 December 2008	**1**	**-**	**1**
Company			
Cost			
At 1 January 2007 and 31 December 2008	**-**	**9,019**	**9,019**
Provisions for impairment:			
At 1 January 2007	**-**	**6,538**	**6,538**
Impairment charge	-	1,054	1,054
At 31 December 2007	**-**	**7,592**	**7,592**
Impairment charge	-	688	688
At 31 December 2008	**-**	**8,280**	**8,280**
Net book value:			
At 1 January 2007	**-**	**2,481**	**2,481**
At 1 January 2008	**-**	**1,427**	**1,427**
At 31 December 2008	**-**	**739**	**739**

Further details of subsidiaries are provided in note 27.

15 Inventories

	Group 2008 £'000	Group 2007 £'000
Raw materials and consumables	-	119
Work in progress	-	3
Finished goods	20	16
	20	**138**

Notes to the Consolidated Financial Statements (continued)
Year ended 31 December 2008

16 Trade and other receivables

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Trade receivables – gross	150	1,496	-	-
Less provisions for impairment	(31)	(12)	-	-
Net trade receivables	119	1,484	-	-
Amounts owed by subsidiary undertakings	-	-	1,966	2,077
Other receivables	15	205	1	-
Prepayments and accrued income	32	39	5	6
	166	**1,728**	**1,972**	**2,083**

17 Trade and other payables

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Trade payables	57	141	-	-
Amounts owed to subsidiary undertakings	-	-	14	14
Other taxation and social security	15	20	-	-
Other payables	5	28	-	-
Accruals and deferred income	99	546	45	108
	176	**735**	**59**	**122**

18 Provisions

The Group	**Warranty provision £'000**	**Leasehold void space provision £'000**	**Total £'000**
At 1 January 2007	**173**	**1,029**	**1,202**
Released to profit and loss account	(38)	-	(38)
Utilised	(7)	(1,029)	(1,036)
At 31 December 2007	**128**	**-**	**128**
Released to profit and loss account	(8)	-	(8)
Utilised	(32)	-	(32)
At 31 December 2008	**88**	**-**	**88**
Less non-current portion	53	-	53
Current portion	**35**	**-**	**35**

Warranty costs are provided for the repair or replacement of goods sold while under warranty. Warranty arrangements vary between products and customers to cover a period of up to 5 years.

Notes to the Consolidated Financial Statements (continued)

Year ended 31 December 2008

18 Provisions (continued)

The estimated number of returns is derived by applying a percentage (0.5% – 1.5%) to the number of units with outstanding warranties Standard repair costs specific to the type of unit are used to calculate the total cost.

Although the Directors recognise the uncertainty in the valuation of the warranty provision, they are confident that this represents a prudent estimate of the likely costs attributable to the period.

During May 2007 the shareholders approved the surrender of the lease for the property in Australia. The Group paid £1.0m to surrender the lease and the void space lease provision held in the accounts was released.

19 Financial Risk Management

The Group's financial risk management objectives are to maximise its cash balances and minimise its exposure to credit and foreign currency risk. The main risks arising from the Group's financial instruments are in respect of credit and foreign exchange risk. The Group monitors its trade receivables and, when appropriate, will discount its debt to ensure funds are received in advance of its terms and conditions.

The Group's financial instruments comprise cash balances, short term receivables and payables arising directly from the Group's trading operations. The Group does not undertake any speculative derivative transactions or trade in financial instruments. There is no significant difference between the fair value of the Group's financial assets and liabilities as at 31 December 2008 and that as shown in the balance sheet at that date.

Financial assets and liabilities as at 31 December 2008 and 31 December 2007 were:

	2008 £'000	2007 £'000
Financial assets		
Investments	1	1
Cash at bank	3,128	2,767
Trade receivables	119	1,484
	3,248	**4,252**
Financial liabilities		
Trade payables	**57**	**141**

Performance bonds and guarantees are provided in the ordinary course of business. At the year end £300,000 (2007: £236,000) was pledged to the bank as collateral against outstanding bonds amounting to £292,000 (2007: £174,000). Collateral will be released when the Group has satisfactorily completed its requirements under its contracts, including the completion of the appropriate guarantee period.

Credit risk

The Group's sales consist of contracts with a small number of customers. At the year end trade receivables consisted of debt due from two customers. The Group limits its risk by requiring customers to pay a proportion of sales values in advance of delivery of goods.

Notes to the Consolidated Financial Statements (continued)

Year ended 31 December 2008

19 Financial Risk Management (continued)

Exchange risk

The table below shows the Group's currency exposures being cash and receivable balances that are not denominated in the operating or functional currency of the operating unit involved:

	Sterling £ £'000	US $ £'000	Euro £'000
Functional currency			
Sterling – 2008	-	110	52
Euros – 2008	1,485	31	-
Sterling – 2007	-	184	418
Euros – 2007	-	1,969	-

20 Share capital

	2008 £'000	2007 £'000
Authorised: 55,000,000 ordinary 25p shares	13,750	13,750
Issued, allotted and fully paid: 40,500,615 ordinary 25p shares	10,125	10,125

The share capital of the Company is comprised wholly of ordinary equity shares.

21 Reserves

	Share premium account £'000	Revaluation reserve £'000	Merger reserve £'000	Other reserves £'000	Cumulative translation reserve £'000	Profit and loss account £'000
Group						
At 1 January 2007	**10,419**	**1,224**	**(6,930)**	**361**	**(21)**	**(10,705)**
Currency translation adjustments	-	-	-	-	(78)	-
Release of revaluation reserve on disposal of asset	-	(1,224)	-	-	-	1,224
Loss for the period	-	-	-	-	-	(616)
At 31 December 2007	**10,419**	**-**	**(6,930)**	**361**	**(99)**	**(10,097)**
Loss for the period	-	-	-	-	-	(548)
Currency translation adjustments	-	-	-	-	(178)	-
At 31 December 2008	**10,419**	**-**	**(6,930)**	**361**	**(277)**	**(10,645)**

Notes to the Consolidated Financial Statements (continued)
Year ended 31 December 2008

21 Reserves (continued)

Other reserves comprise legal reserves in certain foreign subsidiary undertakings which are required by local law and are unavailable for distribution.

	Share premium account £'000	Profit and loss account £'000
Company		
At 1 January 2007	**10,419**	**(16,116)**
Loss for the year	-	(1,040)
At 1 January 2008	**10,419**	**(17,156)**
Loss for the year	-	(734)
At 31 December 2008	**10,419**	**(17,890)**

22 Cash flow - Reconciliation of operating loss to operating cash flows

	Group 2008 £'000	Group 2007 £'000	Company 2008 £'000	Company 2007 £'000
Operating loss	(633)	(780)	(838)	(1,163)
Depreciation charge	9	76	-	-
Impairment of investments	-	-	688	1,053
Profit on sale of switch business	-	(112)	-	-
Profit on disposal of property, plant and equipment	(30)	7	-	-
Net movement in provisions	(39)	(1,127)	-	-
Changes in working capital:				
Inventories	120	336	-	-
Trade and other receivables	1,652	(855)	111	(100)
Trade and other payables	(551)	(432)	(63)	87
Net cash inflow/(outflow) from operating activities	**528**	**(2,887)**	**(102)**	**(123)**

Notes to the Consolidated Financial Statements (continued)
Year ended 31 December 2008

23 Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	143	835
Short term deposits	2,985	1,932
	3,128	**2,767**

24 Operating lease commitments

The Group had the following minimum rental commitments in respect of operating leases:

	2008 Land and buildings £'000	2007 Land and buildings £'000
Operating leases which expire:		
Within one year	12	36
Between one and two years	-	11
	12	**47**

25 Pensions

Telspec Europe Limited contributes to a money purchase scheme. Telspec Europe Limited makes employer contributions of 1.5% per 1% contributed by the member up to a maximum of 7.5% for employees and 9% for Directors.

Telspec Pty Limited contributes 6% of the employees' basic salary to defined contribution superannuation funds independently managed in Australia.

The pension costs charged in the accounts represent contributions payable by the Group to these funds and amounted to £23,000 (2007: £35,000). Contributions totalling £2,000 (2007: £4,000) were payable to the fund at the year end and are included in creditors.

26 Related party transactions

During the year the Company received management charges and interest on outstanding inter Company balances of £120,000 and £104,000 (2007: £200,000 and £123,000) respectively.

Notes to the Consolidated Financial Statements (continued)

Year ended 31 December 2008

27 Subsidiary undertakings

The subsidiaries in the Group are:

Company	Activity	Place of Incorporation and Operation	Issued share capital	Held by
Telspec Europe Limited	Design, manufacture, sale and support of telecommunications equipment	England and Wales	13,686 ordinary shares of £1 each	Telspec plc
Telspec Pty Limited	Sale and support of telecommunications equipment	Australia	102 ordinary shares of Aus$1 each	Telspec Australia Limited
Telspec Australia Limited	Intermediate holding Company for Telspec Pty Limited	England and Wales	13,686 ordinary shares of £1 each	Telspec plc
Telspec Scotland Limited	Non trading	England and Wales	2,000,000 ordinary shares of £1	Telspec plc
Telspec Espana sl	Sale of telecommunications equipment	Spain	10,000 ordinary shares of 6 Euros each	Telspec Europe Limited
Telspec Istanbul Limited	Sale, distribution and support of telecommunications equipment	Turkey	16,610 ordinary shares of 25,000,000 TL each	Telspec Europe Limited (90%) Telspec plc (10%)

All subsidiary companies are 100% owned.

28 Ultimate controlling party

There is no ultimate controlling party. However, Faraday Holdings Limited (“Faraday”), a Company incorporated in the British Virgin Islands, currently holds 41.97% of the Company’s issued share capital.

Notes to the Consolidated Financial Statements (continued)

Year ended 31 December 2008

29 New standards and interpretations not in force

With the exception of the revisions to IAS 1 noted below there are no new standards and interpretations in issue, but not in force at 31 December 2008 that will have an impact on the financial statements.

IAS 1 Presentation of Financial Statements

The revisions to this standard will prohibit the presentation of items of income and expenditure within the statement of changes in equity. All items of income and expenditure will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the ‘statement of comprehensive income’) or two statements (the ‘income statement’ and ‘statement of comprehensive income’).

30 Report and accounts

Copies of the annual report and accounts will be posted to shareholders shortly and are available at www.telspec.co.uk.

Five Year Record

Telspec plc
Five year summary

	IFRS 2008 £'000	IFRS 2007 £'000	IFRS 2006 £'000	IFRS 2005 £'000	UK GAAP 2004 £'000
Group Profit & Loss Account					
Turnover	483	3,436	5,871	8,210	10,054
Gross profit	136	1,198	1,945	2,317	2,745
Operating loss	(633)	(780)	(1,982)	(2,264)	(1,212)
Loss on ordinary activities before taxation	(548)	(668)	(1,918)	(2,127)	(1,111)
Basic loss per ordinary share (p)	(1.4)	(1.5)	(4.7)	(5.3)	(2.7)
LBITDA	(624)	(704)	(1,773)	(2,023)	(636)
Operating cash flow	(528)	(2,887)	(967)	(2,222)	2,249
Group Balance Sheet					
Fixed assets	3	9	1,772	1,746	2,175
Intangible assets	-	-	-	50	250
Working capital	10	1,131	143	1,281	1,422
Net cash/funds	3,128	2,767	3,760	4,359	5,468
Provisions	(88)	(128)	(1,202)	(1,322)	(1,390)
Equity shareholders' funds	3,053	3,779	4,473	6,114	7,925
Return on capital employed (ROCE)	*-20.7%*	*-20.6%*	*-44.3%*	*-37.0%*	*-15.3%*