

Telspec plc
Interim Report 2009

Chairman's Statement

Trading

During the first six months of 2009 Telspec plc ('Telspec' or 'The Company') continued to reduce costs and made sales of £43,000 (2008 - £217,000). The resulting loss before tax was £327,000 (2008 - £556,000).

The Company made no significant sales in the period; turnover represents the sales value of providing follow-on sales and after sales service to existing customers. Overhead costs have again reduced and were £364,000 (2008: £707,000).

The Company's performance bond of \$198,000 to its Costa Rican customer was released on 26 June 2009 in accordance with the contract between the Company and its customer.

Proposed Return of Capital

Discussions have continued with shareholders and advisors on ways to return capital to shareholders. The Board is advised that the most efficient way to return capital to shareholders is to delist the Company's shares from AIM and convert it to a private limited company. The Company could then make use of the provisions in the Companies Act 2006 which provides a simpler mechanism for private companies to cancel part of their share capital and return the excess capital to shareholders.

Plans for delisting the Company from AIM and converting it to a private limited company were put to the Annual General Meeting on 25 June 2009 but were not passed as they failed to achieve the necessary 75% majority of votes cast. At that meeting the resolutions failed because companies controlled by Peter Gyllenhammar voted against them. Mr Gyllenhammar then controlled 28.2% of the ordinary shares in Telspec. These resolutions were pre-requisite to a return of capital.

At the AGM it was announced that the bond to Costa Rica was in the process of being returned, which the Board hoped would enable it to increase the interim capital repayment from 4.5 pence a share to 5.0 pence a share.

Since the AGM, Mr Gyllenhammar has been in discussions with the Board and, as the bond to the Company's Costa Rican customer has now been fully released enabling the Board to increase the amount it would hope to pay to Shareholders, has now undertaken to support the resolutions, if they are re-presented to shareholders at an EGM. The Board has therefore agreed to hold an EGM at which the resolutions will be re-put to shareholders. This EGM has been convened for 10.00am on Friday 14 August at the Company's offices in Rochester.

Cash and Net Assets

The cash balances as at 30 June 2009 were £2.843 million (June 2008: £2.205 million, December 2008: £3.128 million).

The Company's unaudited net asset value as at 30 June 2009 was £2.722 million which equates to 6.7p per share (2008: £3.178 million and 7.8p per share).

David Steeds

Chairman

4 August 2009

Condensed consolidated statement of comprehensive income for the six months ended 30 June 2009

		Unaudited 6 months ended 30 June 2009 £'000	Unaudited 6 months ended 30 June 2008 £'000	Audited Year ended 31 December 2008 £'000
	Note			
Sales		43	217	483
Cost of sales		(6)	(200)	(347)
Gross profit		37	17	136
Other (expenses)/income	3	(14)	95	531
Selling and marketing expenses		(18)	(94)	(132)
Administrative expenses		(346)	(613)	(1,168)
Operating loss		(341)	(595)	(633)
Net interest receivable		14	39	85
Loss after taxation		(327)	(556)	(548)
Currency translation adjustment		(4)	(45)	(178)
Total comprehensive loss for the year		(331)	(601)	(726)
Basic and diluted loss after taxation per ordinary share	5	(0.8p)	(1.4p)	(1.4p)

Condensed consolidated statement of financial position at 30 June 2009

	Unaudited 30 June 2009 £'000	Unaudited 30 June 2008 £'000	Audited 31 December 2008 £'000
Non current assets			
Property, plant and equipment	1	8	2
Investments	1	1	1
	<u>2</u>	<u>9</u>	<u>3</u>
Current assets			
Inventories	13	126	20
Trade and other receivables	43	1,491	166
Cash and cash equivalents	7 2,843	2,205	3,128
	<u>2,899</u>	<u>3,822</u>	<u>3,314</u>
Total assets	<u>2,901</u>	<u>3,831</u>	<u>3,317</u>
Current liabilities			
Trade and other payables	(95)	(547)	(176)
Provisions	(34)	(50)	(35)
	<u>(129)</u>	<u>(597)</u>	<u>(211)</u>
Net current assets	<u>2,770</u>	<u>3,225</u>	<u>3,103</u>
Non-current liabilities			
Provisions	(50)	(56)	(53)
Net assets	<u>2,722</u>	<u>3,178</u>	<u>3,053</u>
Equity			
Called up share capital	10,125	10,125	10,125
Share premium account	10,419	10,419	10,419
Merger reserve	(6,930)	(6,930)	(6,930)
Other reserves	361	361	361
Profit and loss account – deficit	(11,253)	(10,797)	(10,922)
	<u>2,722</u>	<u>3,178</u>	<u>3,053</u>

Approved by the Board of Directors on 4 August 2009
Signed on behalf of the Board of Directors

Fred White
Director

**Condensed consolidated statement of changes in
shareholders' equity (unaudited) for the six months ended
30 June 2009**

	Share capital £'000	Other reserves £'000	Accumulated loss £'000	Total equity £'000
At 1 January 2008	10,125	3,850	(10,196)	3,779
Total comprehensive loss for the period	-	-	(601)	(601)
At 30 June 2008	10,125	3,850	(10,797)	3,178
Total comprehensive loss for the period	-	-	(125)	(125)
At 31 December 2008	10,125	3,850	(10,922)	3,053
Total comprehensive loss for the period	-	-	(331)	(331)
At 30 June 2009	10,125	3,850	(11,253)	2,722

Condensed consolidated cash flow statement for the six months ended 30 June 2009

	Note	Unaudited 6 months ended 30 June 2009 £'000	Unaudited 6 months ended 30 June 2008 £'000	Audited Year ended 31 December 2008 £'000
Net cash flows (used in) from operating activities	6	(301)	(464)	528
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment		6	6	30
Interest received		14	39	85
Net cash generated from investing activities		20	45	115
Exchange loss		(4)	(143)	(282)
Net (decrease)/increase in cash		(285)	(562)	361
Cash at beginning of period		3,128	2,767	2,767
Cash at end of the period	7	2,843	2,205	3,128

Notes to the condensed consolidated interim financial statements

1 Basis of preparation

These interim condensed consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union, and International Financial Reporting Standards. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those adopted for the year ended 31 December 2008, other than the adoption, with effect from 1 January 2009, of IAS 1 (revised) 'Presentation of Financial Statements'. The comparative results for this period present a condensed version of the full accounts for the year ended 31 December 2008, which have been filed with Registrar of Companies. The auditors report on these accounts was unqualified and did not contain an emphasis of matter paragraph or a statement under section 237 (2) or 237 (3) of the Companies Act 1985.

The financial information contained in this report has not been audited and does not constitute statutory accounts within the meaning of section 435 of the Companies Act 2006.

Where necessary, the comparatives have been reclassified from the previously reported interim results to take into account any presentational changes made in the Annual Report.

2 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:

Turnover:

	Unaudited 6 months ended 30 June 2009 £'000	Unaudited 6 months ended 30 June 2008 £'000	Audited Year ended 31 December 2008 £'000
By geographical destination			
Costa Rica	1	-	(11)
Middle East	5	3	6
Australia	2	84	275
EU (other than United Kingdom)	35	130	213
	43	217	483

3 Other (expenses)/income

	Unaudited 6 months ended 30 June 2009 £'000	Unaudited 6 months ended 30 June 2008 £'000	Audited Year ended 31 December 2008 £'000
Exchange (loss)/gain	(22)	86	427
Unwinding of financial discount on sales recorded in 2007	-	-	70
Other	8	9	34
	(14)	95	531

Notes to the condensed consolidated interim financial statements (continued)

4 Deferred tax

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 £3.1m as at 30 June 2009 (June 2008: £2.4m; December 2008 £2.8m).

5 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:

	Unaudited 6 months ended 30 June 2009	Unaudited 6 months ended 30 June 2008	Audited Year ended 31 December 2008
Loss on ordinary activities after taxation	<u>(£327,000)</u>	<u>(£556,000)</u>	<u>(£548,000)</u>
Weighted average number of shares: For basic and diluted loss per share	40,500,615	40,500,615	40,500,615
Basic and diluted loss per ordinary share	(0.8p)	(1.4p)	(1.4p)

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

	Unaudited 6 months ended 30 June 2009 £'000	Unaudited 6 months ended 30 June 2008 £'000	Audited Year ended 31 December 2008 £'000
Operating loss	(341)	(595)	(633)
Depreciation charge	1	1	9
Profit on disposal of fixed assets	(6)	(6)	(30)
Net movement in provisions	(4)	(23)	(39)
Changes in working capital:			
Inventories	7	14	120
Trade and other receivables	123	336	1,652
Trade and other payables	(81)	(191)	(551)
Net cash (outflows) inflows from operating activities	<u>(301)</u>	<u>(464)</u>	<u>528</u>

Notes to the condensed consolidated interim financial statements (continued)

7 Cash and cash equivalents

	Unaudited 6 months ended 30 June 2009 £'000	Unaudited 6 months ended 30 June 2008 £'000	Audited Year ended 31 December 2008 £'000
Cash at bank and in hand	190	213	143
Short term deposits	2,653	1,992	2,985
	2,843	2,205	3,128

Included in short term deposits is an amount of £103,000 (30 June 2008: £237,000, 31 December 2008: £300,000) which relates to cash deposits to cover outstanding performance bonds.

8 Interim Report

Copies of the Company's interim report are available on its website, www.telspec.co.uk.