THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document and/or the action that you should take, you should immediately seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) if you are in the United Kingdom or, if not, an appropriately authorised independent financial adviser.

The content of this document has not been approved by an authorised person within the meaning of the Financial Services and Markets Act 2000 (as amended). Reliance on this document for the purpose of engaging in any investment activity may expose an individual to a significant risk of losing all amounts invested.

If you have sold or otherwise transferred all of your registered holding of Netcall Shares, please immediately forward this document, together with the accompanying Form of Proxy, to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of Netcall Shares, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately.

The distribution of this document and/or the accompanying Form of Proxy in any jurisdiction other than the UK may be restricted by law and therefore persons into whose possession such documents come should inform themselves about and observe any of those restrictions. Any failure to comply with any of those restrictions may constitute a violation of the securities laws of any such jurisdiction.

Conditional upon the passing of the resolutions, applications will be made to the London Stock Exchange for the issued shares comprising the Enlarged Share Capital to be admitted to trading on AIM. It is expected that admission to trading on AIM and dealings in all of the Placing Shares will have commenced on 27 July 2010. It is expected that re-admission to trading on AIM and dealings in the Existing Ordinary Shares and admission to trading on AIM and dealings in the New Netcall Shares will commence on 30 July 2010.

AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. The London Stock Exchange has not itself examined or approved the contents of this document. A prospective investor should consider carefully whether an investment in the Company is suitable for him in the light of his personal circumstances and the financial resources available to him. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two of the AIM Rules for Nominated Advisers.

Recommended acquisition

by

Netcall plc

of the entire ordinary share capital of

Telephonetics plc

to be effected by means of a Scheme of Arrangement under Part 26 of the Companies Act 2006

and

conditional placing of 22,368,420 new ordinary shares of 5 pence each in Netcall plc at 19 pence each

and

notice of a General Meeting of Netcall plc

The Netcall Directors and the Proposed Netcall Directors, whose names appear on page 12 of this document, and the Company accept responsibility, both collectively and individually, for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of such directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Evolution Securities Limited, which is authorised and regulated in the United Kingdom by the Financial Services Authority, is acting as Nominated Adviser and Broker for the Company in relation to the arrangements referred to herein. The responsibilities of Evolution Securities Limited as the Company's Nominated Adviser under the AIM Rules for Nominated Advisers are owed solely to London Stock Exchange and are not owed to the Company or to any director or to any person. Persons receiving this document should note that Evolution Securities Limited will not be responsible to anyone other than the Company for providing the protections afforded to clients or for advising any other person on the arrangements described in this document. Evolution Securities Limited has not authorised the contents of, or any part of, this document and no liability whatsoever is accepted by it for the accuracy of any information or opinions contained in this document or for the omission of any information.

This document, which comprises an AIM Admission Document, has been drawn up in accordance with the AIM Rules. This document does not constitute a prospectus for the purposes of the Prospectus Rules, has not been drawn up in accordance with the Prospectus Rules, and has not been, and will not be, approved by or filed with the Financial Services Authority. **This document does not constitute an offer or invitation to purchase or sell any securities.**

This document does not constitute an offer to sell or issue or the solicitation of an offer to buy or subscribe for any securities in any jurisdiction in which such an offer or solicitation is unlawful and any failure to comply with these restrictions may constitute a violation of applicable securities laws in such jurisdictions. Neither the New Netcall Shares nor the Placing Shares have been nor will they be registered under the United States Securities Act of 1933, as amended (the ''Securities Act'') or under the securities laws of any state or other jurisdiction in the United States nor will they qualify for distribution under any of the relevant securities laws of Canada, Australia, South Africa, the Republic of Ireland or Japan, nor has any prospectus in relation to the New Netcall Shares or the Placing Shares been lodged with or registered by the Australian Securities and Investments Commission. The New Netcall Shares and the Placing Shares are only being offered and sold outside the United States in transactions exempt from the registration requirements of the Securities Act in compliance with Regulation S of the Securities Act and within the United States to ''accredited investors'' in reliance on Regulation D of the Securities Act. Accordingly, absent registration or unless a relevant exemption from registration is available, neither the New Netcall Shares nor the Placing Shares may be, directly or indirectly, offered, sold, taken up, delivered or transferred in or into the United States, Canada, Australia, South Africa, the Republic of Ireland or Japan or any country, territory or possession where to do so may contravene local securities laws or regulations. Overseas Shareholders and any person (including, without limitation, nominees and trustees) who have a contractual or other legal obligation to forward this document or any document which accompanies it to a jurisdiction outside the United Kingdom should seek appropriate advice before taking any action.

Your attention is drawn to the letter from the Chairman of Netcall which is set out in Part I of this document which contains the unanimous recommendation of the Netcall Directors that Netcall Shareholders vote in favour of the resolutions to be proposed at the Netcall General Meeting referred to below. Please read the whole of this document and, in particular, the risk factors set out in Part II of this document.

Notice of a General Meeting, to be held at the offices of Osborne Clarke, One London Wall, London EC2Y 5EB at 2.00 p.m. on 8 July 2010, is set out at the end of this document. Netcall Shareholders will find enclosed a Form of Proxy for use in relation to the Netcall General Meeting. To be valid, the Form of Proxy should be completed and returned to the Company's registrars, Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen B63 3BR, in accordance with the instructions printed on it as soon as possible and, in any event, so as to be received by not later than 2.00 p.m. on 6 July 2010. Completion and return of Forms of Proxy will not preclude Netcall Shareholders from attending and voting in person at the Netcall General Meeting should they so wish.

CONTENTS

		Page
Key information		4
Key statistics		9
Expected timetable of principal events		9
Market and financial information		10
Forward looking statements		10
Netcall Directors, Proposed Netcall Directors, secretary and advisers		12
Definitions		13
Glossary		18
Part I	**Letter from the Chairman of Netcall**	
	Introduction	19
	Summary of the terms of the Acquisition and the Placing	19
	Background to the reasons for the Acquisition and the Placing	21
	Information on Netcall	22
	Information on Telephonetics	25
	Netcall Directors and Proposed Netcall Directors	27
	Strategy for the Enlarged Group	28
	Telephonetics Shareholder and Netcall Shareholder undertakings and letters of intent	29
	Implementation Agreement and Inducement Fee Agreement	30
	Lock-in Agreement	31
	Dividend Policy	31
	Corporate governance	31
	Dealings, Admission and settlement	32
	United Kingdom taxation	32
	Overseas shareholders	32
	The Netcall General Meeting	32
	Further information	33
	Action to be taken	33
	Recommendation	33
Part II	**Risk factors**	34
Part III	**Historical financial information on Netcall**	41
Part IV	**Historical financial information on Telephonetics**	42
Part V	**Unaudited *pro forma* statement of net assets of the Enlarged Group**	143
Part VI	**Conditions and further terms of the Acquisition**	145
Part VII	**Additional information**	150
Notice of General Meeting		175

KEY INFORMATION

The information is derived from, and should be read in conjunction with, the full text of this document and Netcall Shareholders should read the whole document and not just rely on the key information set out below. In particular, your attention is drawn to Part II of this document, which is entitled "Risk Factors".

1. Introduction

On 1 June 2010, your board of directors and the Telephonetics Board announced that they had agreed the terms of a recommended proposed acquisition by Netcall of the entire ordinary share capital of Telephonetics.

It is envisaged that the Acquisition will be implemented by way of a Court sanctioned scheme of arrangement under Part 26 of the Act, involving a capital reduction under section 645 of the Act. The Conditions to the Acquisition are set out in Part VI of this document.

Under Rule 14 of the AIM Rules for Companies, the Acquisition will constitute a reverse takeover for Netcall and, accordingly, is conditional upon the approval of Netcall Shareholders at the Netcall General Meeting, which is being convened for 8 July 2010. The Acquisition is also conditional on the passing by Netcall Shareholders of certain resolutions in connection with the Placing and the admission of the Placing Shares to trading on AIM. In order to implement the Acquisition, the Netcall Board is also seeking authority from Netcall Shareholders at the Netcall General Meeting to allot the New Netcall Shares to be issued in connection with the Scheme. If the Resolutions are duly passed and the Court Orders obtained, it is expected that the Existing Netcall Shares and the New Netcall Shares to be issued in connection with the Acquisition will be admitted to trading on AIM on 30 July 2010.

In the same announcement, Netcall stated that it was proposing to raise £4.25 million (before expenses) at a price of 19 pence per Netcall Share by way of a placing of up to 22,368,420 new Netcall Shares, arranged on the Company's behalf by Evolution Securities. The Company intends to use the net proceeds to part finance the Acquisition and for general working capital requirements. The Placing is conditional, *inter alia*, upon Netcall Shareholders approving the Acquisition and granting the Netcall Board authority to allot the Placing Shares on a non pre-emptive basis. It is also conditional upon Telephonetics Shareholders passing the resolutions necessary to approve the Scheme and implement the Acquisition, the grant of the First Court Order and admission of the Placing Shares to trading on AIM.

The purpose of this document is to provide you with information about the background to and the reasons for the Acquisition and the Placing, to explain why the Netcall Board considers the proposals to be in the best interests of Netcall and its shareholders as a whole and why the Netcall Directors recommend that you vote in favour of the Resolutions to be proposed at the Netcall General Meeting, notice of which is set out at the end of this document.

2. Summary of the terms of the Acquisition and the Placing

2.1 Acquisition

The Acquisition involves the acquisition by Netcall of the entire ordinary share capital of Telephonetics and is to be effected by way of a scheme of arrangement (including a reduction of capital) between Telephonetics and the Scheme Shareholders under Part 26 of the Act. Under the terms of the Scheme, which will be subject to satisfaction or (where appropriate) waiver of the Conditions set out in Part VI of this document, Scheme Shareholders who are on the register of members of Telephonetics at the Scheme Record Time will be entitled to receive consideration for their Scheme Shares under the Offer as described below.

for each Scheme Share	**0.3077 New Netcall Shares and 5 pence in cash**

The Telephonetics Directors, who have been so advised by Brewin Dolphin, consider the terms of the Acquisition to be fair and reasonable. In providing advice to the Telephonetics Directors, Brewin Dolphin has taken into account the Telephonetics Directors' commercial assessments.

The Scheme Circular and the related documentation for use by Telephonetics Shareholders have been dispatched to the Telephonetics Shareholders today.

Any Telephonetics Shares issued pursuant to the exercise of options under the Telephonetics 2005 Scheme or the Telephonetics Unapproved Options prior to the Scheme Record Time will be subject to the terms of the Scheme. If the Scheme becomes effective, it will be binding on all Scheme Shareholders, including those who do not vote to approve the Scheme and those who vote against the Scheme at the Telephonetics Court Meeting and/or against the resolution to be proposed at the Telephonetics General Meeting.

The Offer values each Scheme Share at:

- 9.23 pence and values the fully diluted ordinary share capital of Telephonetics at approximately £10.58 million (based on the Closing Price of a Netcall Share of 13.75 pence on 28 May 2010, being the last Business Day prior to the date of the Announcement); and
- 9.15 pence and values the fully diluted ordinary share capital of Telephonetics at approximately £10.49 million (based on the Closing Price of a Netcall Share of 13.50 pence on 11 June 2010, being the last Business Day prior to the date of this document)

assuming, in each case, that all in-the-money options held under the Telephonetics 2005 Scheme and the Telephonetics Unapproved Options are exercised.

Based on the Closing Price of a Netcall Share of 13.75 pence on 28 May 2010, being the last Business Day prior to the date of the Announcement, the Offer represents a premium of approximately 27.32 per cent. to the Closing Price of a Scheme Share of 7.25 pence on 28 May 2010, the last Business Day prior to the date of the Announcement.

Based on the Closing Price of a Netcall Share of 13.50 pence on 11 June 2010, being the last Business Day prior to the date of this document, the Offer represents a premium of approximately:

- 4.62 per cent. to the Closing Price of a Scheme Share of 8.75 pence on 11 June 2010, the last Business Day prior to the date of the document; and
- 26.26 per cent. to the Closing Price of a Scheme Share of 7.25 pence on 28 May 2010, the last Business Day prior to the date of Announcement.

2.2 Placing

Netcall proposes to raise a total of £4.25 million (before expenses) by the issue of 22,368,420 Placing Shares at 19 pence per Placing Share. Evolution Securities has conditionally agreed to use its reasonable endeavours, as agent for Netcall, to place the Placing Shares in accordance with a Placing Agreement.

The Placing Agreement is conditional, amongst other things, upon Netcall Shareholders approving the Acquisition and granting authority to the Netcall Board to allot the Placing Shares and disapplying the statutory pre-emption rights necessary to allot the Placing Shares at the Netcall General Meeting. The Placing is also conditional on Telephonetics Shareholders passing the resolutions necessary to approve the Scheme and implement the Acquisition at the Telephonetics General Meeting, the grant of the First Court Order and the admission of the Placing Shares to trading on AIM.

The placing price of 19 pence per Placing Share represents a premium of 38.18 per cent. to the closing middle market price of 13.75 pence per Netcall Share on 28 May 2010, being the last Business Day prior to the date of the Announcement.

Netcall has obtained advance clearance from HMRC for the Placing Shares to be treated as qualifying holdings within the meaning of Part 6 of the Income Tax Act 2007. In order for the Placing Shares to meet the qualifying criteria for a VCT under the relevant legislation, Netcall will conduct the Placing via a split admission process, in the following manner:

Date	*VCT funds*	*Number of Placing Shares*	*Placees*
First Admission, on 26 July 2010	VCT funds raised after 6 April 2006	5,789,473 New VCT Placing Shares	ISIS
Second Admission, on 27 July 2010	VCT funds raised before 6 April 2006	12,631,579 Old VCT Placing Shares 3,947,368 Old VCT Placing Shares	ISIS Octopus

Immediately following Admission, ISIS will have an interest in 18,421,052 Netcall Shares representing approximately 15.12 per cent. of the Enlarged Share Capital. At the date of this document, Octopus has an interest in 7,054,699 Telephonetics Shares and, immediately following Admission, is expected to have a total interest in 6,118,098 Netcall Shares representing approximately 5.02 per cent. of the Enlarged Share Capital (assuming, in each case, that all in-the-money options held under the Telephonetics 2005 Scheme and the Telephonetics Unapproved Options are exercised).

3. Background to and reasons for the Acquisition and the Placing

3.1 Acquisition

Netcall operates in a highly fragmented software and IT market place, ranging from substantial providers offering a broad range of integrated services to a large number of smaller and niche players. The Netcall Board believes Netcall has a good position in its market niches within the call centre and contact solutions sectors and that Netcall is considered a trusted partner by its customer base. Netcall remains committed to its strategy of providing communication solutions which drive customer cost reductions and efficiency improvements while enhancing customer satisfaction. It delivers solutions on both an initial licence fee model and a *SaaS* model. Netcall has, since a turnaround in 2004 by the current management team, been profitable and cash generative in every subsequent financial year. The Netcall Board has been encouraged by the strategic progress achieved so far, most recently being the acquisition and integration of Q-Max, a UK-based provider of workforce management software to contact centres. As announced in its interim results in March 2010 for the period ended 31 December 2009, Netcall continues to pursue an acquisitive growth strategy with a view to increasing critical mass, achieving greater market penetration and delivering long term shareholder value.

The Netcall Board has been evaluating acquisition opportunities in the sector as part of the strategy review to broaden its products portfolio. As part of this process, Netcall identified Telephonetics' product portfolio and customer base as being complementary to Netcall. In 2009, Netcall commenced initial discussions with Telephonetics with a view to an acquisition of Telephonetics by Netcall. The boards of Netcall and Telephonetics have recently concluded the terms of the offer now being made by Netcall for Telephonetics.

The Netcall Board believes that the Acquisition is synergistic and that the Enlarged Group:

- will create a combined entity with an enhanced proposition for customer interaction solutions;
- will have a broadened and improved product offering through the addition of workforce management and callback products to Telephonetics' solution portfolio;
- will significantly increase the customer base and allow a greater opportunity for cross selling Netcall solutions into the Telephonetics base of NHS and public sector customers as well as cross selling Telephonetics' speech automation and data integration solutions into Netcall's corporate customers;
- will broaden the major telecommunication reseller channels available to each business and sale of each other's solutions;
- will add further skilled engineering and technical expertise to create an Enlarged Group with in excess of 130 employees, thus providing an enhanced ability to deliver solutions to the customers of the Enlarged Group;
- will benefit from cost synergies as a result of the removal of duplication of head office costs as well as the increased scale of the enlarged business; and
- will increase the presence of the Enlarged Group in its fragmented markets.

3.2 Placing

Netcall proposes to utilise the net proceeds of the Placing to part finance the Acquisition and for its general working capital requirements.

4. Information on Netcall

Netcall is a Cambridge based company and its ordinary shares are admitted to trading on AIM. Netcall designs, develops and markets a range of callback, auto messaging and contact and workforce management solutions to organisations of a wide range of sizes and industry sectors, including many blue-chip companies. Netcall generates revenue from software licences, plus support and maintenance and the provision of its products through a *SaaS* model. The run rate aggregate revenues from support and maintenance and the *SaaS* model are of a recurring nature and exceed the Netcall Group's operating costs.

On 1 June 2010, the Netcall Board reported that trading in the second half of its financial year had progressed according to plan; revenues of a recurring nature and cash position had increased, the Netcall Group had continued to win new business and had a healthy pipeline. Whilst market conditions remained challenging and recent economic turmoil added an element of uncertainty which may affect the timing of contracts, the Netcall Board remained confident of a successful outcome to the year.

In line with the treatment of acquisition costs under the currently applicable IFRS whereby costs in relation to the Acquisition are recognised as incurred, it is expected that the majority of such costs will fall within the financial year ending 30 June 2010, despite the fact that completion of the Acquisition is not expected to occur until the next financial year. Consequently, the costs associated with the Acquisition are expected to have a material impact on Netcall's results for the financial year ending 30 June 2010.

Nothing in this document is intended to be a profit forecast and the statements in this document should not be interpreted to mean that the earnings per share for the current or future financial periods will necessarily be greater than those for the relevant preceding financial period.

5. Information on Telephonetics

Telephonetics is a UK-based company quoted on AIM that provides business solutions that enable its clients to streamline the interaction with their own customers, thereby enhancing service levels, increasing efficiency and reducing overall operating costs. These solutions are built upon its own platforms: SEMAP+ communications platform (Speech Enabled Multi-Application Platform) which blends advanced speech recognition and voice automation; and Eden which enables data integration.

Its platforms have been deployed over 500 times to date, notably in the health, local government, corporate and cinema industries.

The Telephonetics Board believes that it has made a good start in 2010 and that trading for the first five months of the financial calendar has been in line with expectations, with the rate of new customer acquisitions and sales orders greater than in the corresponding period last year.

6. Strategy for the Enlarged Group

The Enlarged Board aims to continue developing the existing business of Netcall and Telephonetics by providing to its enlarged customer base the wider range of solutions in the Enlarged Group portfolio. The strategy of the Enlarged Group is to continue increasing shareholder value as a result of increased market penetration combined with continuing cost control and the expected synergies and cost savings arising from the Acquisition.

The Enlarged Board also intends to grow the Enlarged Group revenue organically in its existing market segments and take advantage of the acquisitive growth opportunities within its target markets.

7. Telephonetics Shareholder and Netcall Shareholder undertakings and letters of intent

7.1 Telephonetics Shareholders

Netcall has received irrevocable undertakings to vote (or procure the voting) in favour of the Scheme at the Telephonetics Court Meeting and in favour of the special resolution to be proposed at the Telephonetics General Meeting in respect of a total of 63,326,142 Telephonetics Shares, representing in aggregate approximately 57.51 per cent. of the existing issued Telephonetics Shares, of which 46.19 per cent. are held by the Telephonetics Directors who hold Telephonetics Shares.

7.2 Netcall Shareholders

Netcall has received irrevocable undertakings from Netcall Shareholders to vote (or procure the voting) in favour of the Acquisition at the Netcall General Meeting in respect of 16,007,176 Netcall Shares, representing in aggregate approximately 24.93 per cent. of the existing issued Netcall Shares, of which approximately 4.64 per cent. are beneficially held by the Netcall Directors.

Netcall has also received a letter of intent from Bluehone Investors LLP confirming its intention to vote (or procure the voting) in favour of the Acquisition to be proposed at the Netcall General Meeting in respect of a total of 5,915,242 Netcall Shares, representing in aggregate approximately 9.21 per cent. of the existing issued Netcall Shares.

Further details of these irrevocable undertakings and letter of intent are set out in paragraph 8 of Part I of this document.

8. The Netcall General Meeting

Set out at the end of this document is a Notice convening the Netcall General Meeting for the purposes of considering and, if thought fit, passing the Resolutions. The principal purposes of the Resolutions are as follows:

(a) to approve the Acquisition;

(b) to give authority to the Netcall Directors to allot the New Netcall Shares and the Placing Shares, such authority to expire the earlier of (i) the conclusion of the next annual general meeting of Netcall; and (ii) the date falling 15 months after the date of the Netcall General Meeting; and

(c) to disapply statutory pre-emption rights in respect of the Placing Shares.

9. Recommendation

The Netcall Board considers that the Acquisition and the Placing are fair and reasonable and in the best interests of the Company and its shareholders as a whole.

Accordingly, your directors unanimously recommend Netcall Shareholders to vote in favour of the Resolutions, as the Netcall Directors have irrevocably undertaken to do in respect of their entire beneficial holdings of Netcall Shares which together comprise 4.64 per cent of the Existing Netcall Shares.

The whole of this document should be read, and any decision to vote for the Resolutions should be based on consideration of this document as a whole. You should be aware that an investment in the Company involves a high degree of risk and you should carefully consider the section entitled "Risk Factors" set out in Part II of this document.

KEY STATISTICS

Number of Existing Netcall Shares	64,197,689
Number of Placing Shares to be issued pursuant to the Placing	22,368,420
Number of New Netcall Shares to be issued pursuant to the Acquisition*	35,256,184
Number of Netcall Shares in issue following admission of the Placing Shares and the New Netcall Shares*	121,822,293
Percentage of the Enlarged Share Capital represented by the Placing Shares*	18.36
Percentage of the Enlarged Share Capital represented by the New Netcall Shares*	28.94

* Assuming no Netcall Shares are issued pursuant to the exercise of options or warrants over Netcall Shares prior to Admission of the New Netcall Shares and that all in-the-money options held by Telephonetics Option Holders are exercised

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2010
Latest time and date for lodging Forms of Proxy for the Netcall General Meeting	6.00 p.m. on 6 July(1)
Netcall General Meeting Voting Record Time	6.00 p.m. on 6 July
Telephonetics Court Meeting	11.00 a.m. on 8 July
Telephonetics General Meeting	11.15 a.m. on 8 July(2)
Netcall General Meeting	2.00 p.m. on 8 July
First Court Hearing	23 July
First Admission of the New VCT Placing Shares	8.00 a.m. on 26 July
Crediting of CREST accounts in respect of the New VCT Placing Shares	26 July
Second Admission of the Old VCT Placing Shares	8:00 a.m. on 27 July
Crediting of CREST accounts in respect of the Old VCT Placing Shares	27 July
Suspension of trading of Telephonetics Shares/Registration of transfers of Telephonetics Shares	7.00 a.m. on 28 July(3)
Second Court Hearing	28 July(3)
Effective Date of the Scheme	29 July(3)
Cancellation of admission to trading and dealing of Telephonetics Shares on AIM	7.00 a.m. on 30 July(3)
Admission of New Netcall Shares	8:00 a.m. on 30 July(3)
Latest date for despatch of share certificates in respect of the New Netcall Shares to be held in certificated form, for cheques in respect of Cash Consideration, and settlement through CREST in respect of the New Netcall Shares	within 14 days of the Effective Date

Notes:

(1) Forms of Proxy for the Netcall General Meeting must be lodged not later than 48 hours prior to the time appointed for the Netcall General Meeting.

(2) The Telephonetics General Meeting will commence at 11.15 a.m. or, if later, immediately after the conclusion of the Telephonetics Court Meeting.

(3) These dates are indicative only and will depend, among other things, on the date upon which the Conditions are satisfied or (if capable of waiver) waived and the dates upon which the Court sanctions the Scheme and confirms the Capital Reduction and the dates on which the Court Orders are delivered to the Registrar of Companies and, in respect of the Capital Reduction, the Second Court Order is registered by the Registrar of Companies.

MARKET AND FINANCIAL INFORMATION

The data, statistics and information and other statements in this document regarding the markets in which the Telephonetics Group and the Netcall Group operate, or their respective positions therein, are based on the Telephonetics Group's and Netcall Group records or are taken or derived from statistical data and information derived from the sources described in this document.

In relation to these sources, such information has been accurately reproduced from the published information, and, so far as the Netcall Directors and the Proposed Netcall Directors are aware and are able to ascertain from the information provided by the suppliers of these sources, no facts have been omitted which would render such information inaccurate or misleading.

Unless otherwise indicated, financial information in or referred to in this document, including the Netcall Group's audited consolidated financial statements for the years ended 30 June 2007, 2008 and 2009, Netcall Group's unaudited consolidated interim results for the six months ended 31 December 2009 and the Telephonetics Group's audited consolidated financial statements for the years ended 30 November 2007, 2008 and 2009 and the notes to those financial statements, have been prepared in accordance with IFRS. The audited consolidated financial statements of the Netcall Group for the year ended 30 June 2007 and the Telephonetics Group for the year ended 30 November 2007 were prepared under UK Generally Accepted Accounting Policies but they were restated under IFRS as comparative information in the groups' financial statements for the years ended 30 June 2008 and 30 November 2008 respectively.

Various figures and percentages in tables in this document have been rounded and accordingly may not total. Certain financial data has also been rounded. As a result of this rounding, the totals of data presented in this document may vary slightly from the actual arithmetical totals of such data.

All times referred to in this document are, unless otherwise states, references to London time.

FORWARD LOOKING STATEMENTS

This document includes statements that are, or may be deemed to be, "forward looking statements". These forward looking statements can be identified by the use of forward looking terminology, including the terms "believes", "projects", "estimates", "anticipates", "expects", "intends", "plans", "goal", "target", "aim", "may", "will", "would", "could", "should" or "continue" or, in each case, their negative or other variations or comparable terminology. These forward looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding Netcall's, Telephonetics' and the Enlarged Group's intentions, beliefs or current expectations concerning, among other things, Netcall's, Telephonetics' and the Enlarged Group's results of operations, financial condition, prospects, growth, strategies and the industries in which Netcall, Telephonetics and the Enlarged Group operate.

By their nature, forward looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond Netcall's, Telephonetics' or the Enlarged Group's ability to control or predict. Forward looking statements are not guarantees of future performance. Netcall's, Telephonetics' or the Enlarged Group's actual results of operations, financial condition, dividend policy and the development of the industries in which they operate may differ materially from the impression created by the forward looking statements contained in this document. In addition, even if the results of operations, financial condition and dividend policy of Netcall, Telephonetics or the Enlarged Group (as the case may be), and the development of the industries in which they operate, are consistent with the forward looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, those described in the section of this document entitled "Risk Factors".

Nothing in this document is intended to be a profit forecast and the statements in this document should not be interpreted to mean that the earnings per Netcall Share for the current or future financial periods will necessarily be greater than those for the relevant preceding financial period.

You are advised to read this document and the information incorporated by reference into this document in their entirety, and, in particular, the section of this document entitled ''Risk Factors'' for a further discussion of the factors that could affect Netcall's, Telephonetics' or the Enlarged Group's future performance and the industries in which they operate. In light of these risks, uncertainties and assumptions, the events described in the forward looking statements in this document may not occur. For the avoidance of doubt, nothing in this paragraph qualifies the working capital statement set out in paragraph 12 of Part VII of this document.

The forward looking statements contained in this document speak only as of the date of this document. Other than in accordance with their legal or regulatory obligations (including under the the Disclosure and Transparency Rules, the AIM Rules for Companies or the Financial Services and Markets Act 2000) and as required by the Financial Services Authority, the London Stock Exchange or the Panel on Takeovers and Mergers, neither Netcall nor Evolution Securities undertakes any obligation to update or revise publicly any forward looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to Netcall, Telephonetics or the Enlarged Group or individuals acting on behalf of Netcall, Telephonetics or the Enlarged Group are expressly qualified in their entirety by this paragraph.

NETCALL DIRECTORS, PROPOSED NETCALL DIRECTORS, SECRETARY AND ADVISERS

Directors:	Michael Edward Wilson Jackson *(Chairman)* Henrik Peter Bang *(Chief Executive Officer)* Roger Allsop *(Non-Executive Director)*
Proposed Netcall Directors:	James Andrew Ormondroyd *(proposed Group Finance Director)* Mark Christopher Brooks *(proposed Non-Executive Director)* Michael Patrick Neville *(proposed Non-Executive Director)*
Company Secretary:	Michael Charles Greensmith
Registered office:	10 Harding Way St Ives Cambridgeshire PE27 3WR
Nominated Adviser and Broker:	Evolution Securities Limited 100 Wood Street London EC2V 7AN
Auditors to the Company:	Grant Thornton UK LLP Byron House Cambridge Business Park Cowley Road Cambridge Cambridgeshire CB4 0WZ
Reporting Accountants to the Company:	Grant Thornton UK LLP 30 Finsbury Square London EC2P 2YU
Solicitors to the Company:	Osborne Clarke One London Wall London EC2Y 5EB
Solicitors to Evolution Securities:	Berwin Leighton Paisner LLP Adelaide House London Bridge London EC4R 9HA
Registrars:	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3BR
Bankers to the Company:	National Westminster Bank plc

DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

"Act"	the Companies Act 2006 (as amended) and for the time being in force
"Acquisition"	the proposed recommended acquisition of the entire ordinary share capital of Telephonetics by Netcall to be implemented by way of the Scheme on the terms and subject to the Conditions and any subsequent revision, variation, extension or renewal thereof
"Admission"	the admission of the New Netcall Shares and, where the context requires, the Placing Shares (and the re-admission of the existing Netcall Shares) to trading on AIM
"AIM"	AIM, a market operated by the London Stock Exchange
"AIM Rules"	the AIM Rules for Companies published by the London Stock Exchange (as amended from time to time) which govern the admission to trading on and the regulation of AIM
"Announcement"	the announcement of the Acquisition dated 1 June 2010
"Business Day"	a day (other than a Saturday or Sunday or public holiday) on which banks are open for business in London
"Brewin Dolphin"	Brewin Dolphin Corporate Advisory and Broking, a trading name of Brewin Dolphin Limited, a company incorporated under the laws of England and Wales with registered number 2135876
"Capital Reduction"	the proposed reduction of Telephonetics' share capital involving the cancellation and extinguishing of the Scheme Shares under section 645 of the Act
"Cash Consideration"	5 pence in cash per Scheme Share payable to a Scheme Shareholder pursuant to the Scheme
"certificated" or "in certificated form"	a share or other security which is not in uncertificated form (that is, not in CREST)
"City Code"	the City Code on Takeovers and Mergers
"Closing Price"	the closing middle market quotation of a relevant share as derived from the AIM Appendix of the Daily Official List
"Competing Proposal"	a general offer (or scheme of arrangement) for (or in respect of) the entire ordinary share capital of Telephonetics pursuant to which a third party seeks to acquire the entire ordinary share capital of Telephonetics
"Conditions"	the conditions to the Acquisition (including the Scheme) set out in Part VI of this document, and "Condition" means any one of them
"Court"	the High Court of Justice in England and Wales
"Court Hearings"	together, the First Court Hearing and the Second Court Hearing
"Court Orders"	the First Court Order and the Second Court Order
"CREST"	the relevant system (as defined in the CREST Regulations) in respect of which Euroclear is the operator (as defined in the CREST Regulations)
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended
"Daily Official List"	the Daily Official List of the London Stock Exchange
"Datadialogs"	Datadialogs Limited (formerly Eden Origin Limited), a wholly-owned subsidiary of Telephonetics

"Disclosed"	disclosed in: (a) the annual report and accounts of the Netcall Group for the financial year ended 30 June 2009 or the unaudited interim results for the Netcall Group for financial period ended 31 December 2009; (b) any documents delivered to any director, officer or employee of Telephonetics or any professional adviser engaged by Telephonetics in connection with the Acquisition by or on behalf of Netcall at any time prior to 6:00 p.m. on 28 May 2010; (c) the annual report and accounts of the Telephonetics Group for the financial years ended 30 November 2008 and 30 November 2009; (d) any documents delivered to any director, officer or employee of Netcall or any professional adviser engaged by Netcall in connection with the Acquisition by or on behalf of Telephonetics at any time prior to 6:00 p.m. on 28 May 2010; and (e) any public announcement released by or on behalf of Netcall or, as the case may be, Telephonetics to a Regulatory Information Service at any time prior to 6:00 p.m. on 28 May 2010
"Effective Date"	the date on which the Scheme becomes effective in accordance with its terms
"Enlarged Board"	the Netcall Directors and the Proposed Netcall Directors, whose names are set out on page 12 of this document
"Enlarged Group"	with effect from the Effective Date, the Netcall Group as enlarged by the acquisition of the Telephonetics Group
"Enlarged Share Capital"	the enlarged issued share capital of Netcall following Admission of the Placing Shares and the New Netcall Shares, comprising up to 121,822,298 Netcall Shares in total, assuming no further Netcall Shares are issued prior to Admission otherwise than in connection with the Acquisition and the Placing and that all in-the-money options held by Telephonetics Option Holders are exercised
"Euroclear"	Euroclear UK & Ireland Limited, the operator of CREST
"Evolution Securities"	Evolution Securities Limited, the financial adviser to Netcall in connection with the Acquisition, and nominated adviser and broker to Netcall
"Excluded Shares"	any Telephonetics Shares which are registered in the name of or beneficially owned by Netcall or its nominee(s)
"Existing Netcall Shares"	the Netcall Shares in issue from time to time
"First Admission"	admission of 5,789,473 New VCT Placing Shares on 26 July 2010 or such later date as Netcall and Evolution Securities may agree
"First Court Hearing"	the hearing of the Court to sanction the Scheme
"First Court Order"	the order of the Court sanctioning the Scheme under section 899 of the Act
"Form of Proxy"	the form of proxy for use by Netcall Shareholders in connection with the Netcall General Meeting which accompanies this document
"HMRC"	HM Revenue & Customs

"IFRS"	International Financial Reporting Standards as adopted by the European Union and as issued by the International Accounting Standards Board
"Implementation Agreement"	the implementation agreement entered into by Netcall and Telephonetics on 1 June 2010, governing the implementation of the Acquisition, further details of which are set out at paragraph 9.1 of Part I of this document
"Inducement Fee Agreement"	the inducement and exclusivity agreement entered into by Netcall and Telephonetics on 18 May 2010, further details of which are set out in paragraph 9.2 of Part I of this document
"Intra-Netcall Group Transactions"	transactions between Netcall and its wholly-owned subsidiaries
"Intra-Telephonetics Group Transactions"	transactions between Telephonetics and its wholly-owned subsidiaries
"ISIS"	ISIS EP LLP
"London Stock Exchange"	London Stock Exchange plc
"Netcall" or the "Company"	Netcall plc incorporated in England and Wales with registered number 1812912
"Netcall 2000 EMI Scheme"	the Netcall plc Enterprise Management Incentives Plan 2000
"Netcall Board" or "Netcall Directors"	the board of directors of Netcall
"Netcall General Meeting"	the general meeting of Netcall to be held on 8 July 2010 notice of which is set out in this document
"Netcall Group"	Netcall, its subsidiaries and subsidiary undertakings
"Netcall Share Schemes"	the Netcall 2000 EMI Scheme and the Netcall Unapproved Schemes
"Netcall Shareholders"	the holders of Netcall Shares as appear on the register of members of Netcall from time to time
"Netcall Shares"	the ordinary shares of 5 pence each in the capital of Netcall
"Netcall Unapproved Schemes"	the agreements relating to the grant of options over Netcall Shares to Henrik Bang on 2 June 2009 and to Roger Allsop dated 15 February 2002 and 27 January 2003
"New Netcall Shares"	the ordinary shares of 5 pence each in the capital of Netcall proposed to be issued and credited as fully paid to Scheme Shareholders pursuant to the terms of the Acquisition
"New VCT Placing Shares"	the 5,789,473 Placing Shares to be issued to ISIS pursuant to the Placing
"NHS"	National Health Service
"Octopus"	Octopus Investments Limited
"Offer"	the share and cash offer to be provided for under the Scheme pursuant to which Scheme Shareholders will (subject to the terms of the Scheme) receive New Netcall Shares and Cash Consideration on the basis set out in this document
"Old VCT Placing Shares"	the 12,631,579 Placing Shares to be issued to ISIS and 3,947,368 Placing Shares to be issued to Octopus, pursuant to the Placing
"Overseas Shareholders"	a Shareholder who is resident in, ordinarily resident in, or a citizen of, any jurisdiction outside the United Kingdom
"Panel"	the Panel on Takeovers and Mergers

"Placing"	the proposed conditional placing by Evolution Securities of the Placing Shares pursuant to the Placing Agreement
"Placing Agreement"	the placing agreement entered into by Netcall and Evolution Securities on 1 June 2010 in relation to the Placing, summarised in paragraph 11.2(f) of Part VII of this document
"Placing Price"	19 pence per Placing Share
"Placing Shares"	the 22,368,420 Netcall Shares to be issued and placed pursuant to the Placing
"Proposed Netcall Directors"	James Ormondroyd, Mark Brooks and Michael Neville
"Q-Max"	Q-Max Systems Limited
"Resolutions"	the resolutions set out in the Notice of General Meeting at the end of this document
"Scheme" or "Scheme of Arrangement"	the proposed scheme of arrangement under Part 26 of the Act set out in the Scheme Document, with or subject to any modification, addition or condition approved or imposed by the Court and agreed by Telephonetics and Netcall
"Scheme Document"	the document sent to Telephonetics Shareholders containing, amongst other things, the Scheme and the explanatory statement required by section 897 of the Act
"Scheme Record Time"	6.00 p.m. on the Business Day immediately preceding the Second Court Hearing
"Scheme Shares"	Telephonetics Shares: (i) in issue at the date of the Announcement; (ii) in issue after the date of the Announcement and prior to the Scheme Voting Record Time; and (iii) in issue at or after the Scheme Voting Record Time and at or prior to the Scheme Record Time either on terms that the original or any subsequent holders of such shares are, or shall have agreed in writing to be, bound by the Scheme in each case excluding the Excluded Shares
"Scheme Shareholders"	a holder of Scheme Shares
"Scheme Voting Record Time"	6.00 p.m. (London time) on 6 July 2010 or, if the Telephonetics Court Meeting is adjourned, 6.00p.m. (London time) on the day two days before the date of the adjourned meeting
"Second Admission"	admission of the Old VCT Placing Shares on 27 July 2010 or such later date as Netcall and Evolution Securities may agree
"Second Court Hearing"	the hearing by the Court to confirm the Capital Reduction
"Second Court Order"	the order of the Court confirming the Capital Reduction under section 648 of the Act
"subsidiary undertaking"	has the meaning given in section 1162 of the Act
"Telephonetics"	Telephonetics Plc, incorporated in England and Wales with registered number 05256558
"Telephonetics 2005 Scheme"	the 2005 EMI Share Option Scheme of Telephonetics
"Telephonetics Board" or "Telephonetics Directors"	the board of directors of Telephonetics
"Telephonetics Court Meeting"	the meeting of the holders of Scheme Shares to be convened by the Court in order to consider and, if thought fit, approve the terms of the Scheme and any adjournment of such meeting;

"Telephonetics General Meeting"	the general meeting of Telephonetics to be convened, amongst other things, to consider and, if thought fit, approve certain resolutions to implement the Scheme and the Capital Reduction and any adjournment of that meeting
"Telephonetics Group"	Telephonetics, its subsidiaries and subsidiary undertakings
"Telephonetics Option Holders"	the holder of options over Telephonetics Shares under the Telephonetics Share Schemes and the Telephonetics Unapproved Options
"Telephonetics Resolutions"	the resolutions to be proposed at the Telephonetics Shareholder Meetings
"Telephonetics Shares"	the ordinary shares of 1 pence each in the capital of Telephonetics
"Telephonetics Shareholders"	holders of Telephonetics Shares as appearing on the register of members of Telephonetics from time to time
"Telephonetics Shareholder Meetings"	the Telephonetics Court Meeting and the Telephonetics General Meeting
"Telephonetics Unapproved Options"	the options granted by Telephonetics to Brian Smith on 4 July 2006 and James Ormondroyd on 7 July 2005 over 1,404,769 and 611,110 Telephonetics Shares respectively
"UK" or "United Kingdom"	the United Kingdom of Great Britain and Northern Ireland
"uncertificated" or "in uncertificated form"	a share or other security recorded on the relevant register as being held in uncertificated form, in CREST, and title to which, by virtue of the Regulations, may be transferred by means of CREST
"US" or "United States"	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
"VCT"	a venture capital trust for the purposes of Chapter 4, Part 6 of the Income Tax Act 2007

In this document and the Form of Proxy, the expressions "subsidiary", "subsidiary undertaking", "associated undertaking" and "undertaking" have the meanings given by the Act.

In this document and the Form of Proxy, references to the singular include the plural and vice versa, unless the context otherwise requires.

All references in this document to times are to London time unless otherwise stated.

GLOSSARY

The following terms apply throughout this document unless the context otherwise requires:

ACD	automatic call distribution
Carrier switches	a circuit switching computer used by major telephone carriers
CRM	customer relationship management
Computer telephony integration systems	the use of computers to manage telephone calls. The term is used in describing the computerised services of call centres, such as those that direct incoming calls to the correct department of a business
ICP™	intelligent communications platform
Network routing	the routing of telephone calls within carrier networks
SaaS	software as a service, a model of software deployment over the internet
SEMAP+	speech enabled multiple applications platform
SOA	service-oriented architecture

Part I

LETTER FROM THE CHAIRMAN OF NETCALL PLC

(incorporated in England and Wales under the Companies Act 1985 with registered number 1812912)

Directors:	*Registered office:*
Michael Edward Wilson Jackson *(Chairman)*	10 Harding Way
Henrik Peter Bang *(Chief Executive Officer)*	St Ives
Roger Allsop *(Non-Executive Director)*	Cambridgeshire
	PE27 3WR

14 June 2010

To the holders of Netcall Shares and, for information only, to holders of options under the Netcall Share Schemes, holders of Telephonetics Shares and Telephonetics Option Holders

Dear shareholder

Recommended Acquisition by Netcall of Telephonetics

1. Introduction

On 1 June 2010, your board of directors and the Telephonetics Board announced that they had agreed the terms of a recommended proposed acquisition by Netcall of the entire ordinary share capital of Telephonetics.

It is envisaged that the Acquisition will be implemented by way of a Court sanctioned scheme of arrangement under Part 26 of the Act, involving a capital reduction under section 645 of the Act. The Conditions to the Acquisition are set out in Part VI of this document.

Under Rule 14 of the AIM Rules for Companies, the Acquisition will constitute a reverse takeover for Netcall and, accordingly, is conditional upon the approval of Netcall Shareholders at the Netcall General Meeting, which is being convened fo 8 July 2010. The Acquisition is also conditional on the passing by Netcall Shareholders of certain resolutions in connection with the Placing and the admission of the Placing Shares to trading on AIM. In order to implement the Acquisition, the Netcall Board is also seeking authority from Netcall Shareholders at the Netcall General Meeting to allot the New Netcall Shares to be issued in connection with the Scheme. If the Resolutions are duly passed and the Court Orders obtained, it is expected that the Existing Netcall Shares and the New Netcall Shares to be issued in connection with the Acquisition will be admitted to trading on AIM on 30 July 2010.

In the same announcement, Netcall stated that it was proposing to raise £4.25 million (before expenses) at a price of 19 pence per Netcall Share by way of a placing of up to 22,368,420 new Netcall Shares, arranged on the Company's behalf by Evolution Securities. The Company intends to use the net proceeds to part finance the Acquisition and for general working capital requirements. The Placing is conditional, *inter alia*, upon Netcall Shareholders approving the Acquisition and granting the Netcall Board authority to allot the Placing Shares on a non pre-emptive basis. It is also conditional upon Telephonetics Shareholders passing the resolutions necessary to approve the Scheme and implement the Acquisition, the grant of the First Court Order and admission of the Placing Shares to trading on AIM.

The purpose of this letter is to provide you with information about the background to and the reasons for the Acquisition and the Placing, to explain why the Netcall Board considers the proposals to be in the best interests of Netcall and its shareholders as a whole and why the Netcall Directors recommend that you vote in favour of the Resolutions to be proposed at the Netcall General Meeting, notice of which is set out at the end of this document.

2. Summary of the terms of the Acquisition and the Placing

2.1 Acquisition

The Acquisition involves the acquisition by Netcall of the entire ordinary share capital of Telephonetics and is to be effected by way of a scheme of arrangement (including a reduction of capital) between Telephonetics and the Scheme Shareholders under Part 26 of the Act. Under the terms of the Scheme, which will be subject to satisfaction or (where appropriate) waiver of the Conditions set out in Part VI of this document, Scheme Shareholders who are on the register of members of Telephonetics at the Scheme Record Time will be entitled to receive consideration for their Scheme Shares under the Offer as described below.

for each Scheme Share 0.3077 New Netcall Shares and 5 pence in cash

The Telephonetics Directors, who have been so advised by Brewin Dolphin, consider the terms of the Acquisition to be fair and reasonable. In providing advice to the Telephonetics Directors, Brewin Dolphin has taken into account the Telephonetics Directors' commercial assessments.

The Scheme Circular and the related documentation for use by Telephonetics Shareholders have been dispatched to the Telephonetics Shareholders today.

Any Telephonetics Shares issued pursuant to the exercise of options under the Telephonetics 2005 Scheme or the Telephonetics Unapproved Options prior to the Scheme Record Time will be subject to the terms of the Scheme. If the Scheme becomes effective, it will be binding on all Scheme Shareholders, including those who do not vote to approve the Scheme and those who vote against the Scheme at the Telephonetics Court Meeting and/or against the resolution to be proposed at the Telephonetics General Meeting.

The Offer values each Scheme Share at:

- 9.23 pence and values the fully diluted ordinary share capital of Telephonetics at approximately £10.58 million (based on the Closing Price of a Netcall Share of 13.75 pence on 28 May 2010, being the last Business Day prior to the date of the Announcement); and
- 9.15 pence and values the fully diluted ordinary share capital of Telephonetics at approximately £10.49 million (based on the Closing Price of a Netcall Share of 13.50 pence on 11 June 2010, being the last Business Day prior to the date of this document).

assuming, in each case, that all in-the-money options held under the Telephonetics 2005 Scheme and the Telephonetics Unapproved Options are exercised.

Based on the Closing Price of a Netcall Share of 13.75 pence on 28 May 2010, being the last Business Day prior to the date of the Announcement, the Offer represents a premium of approximately 27.32 per cent. to the Closing Price of a Scheme Share of 7.25 pence on 28 May 2010, the last Business Day prior to the date of the Announcement.

Based on the Closing Price of a Netcall Share of 13.50 pence on 11 June 2010, being the last Business Day prior to the date of this document, the Offer represents a premium of approximately:

- 4.62 per cent. to the Closing Price of a Scheme Share of 8.75 pence on 11 June 2010, the last Business Day prior to the date of the document; and
- 26.26 per cent. to the Closing Price of a Scheme Share of 7.25 pence on 28 May 2010, the last Business Day prior to the date of Announcement.

2.2 Placing

Netcall proposes to raise a total of £4.25 million (before expenses) by the issue of 22,368,420 Placing Shares at 19 pence per Placing Share. Evolution Securities has conditionally agreed to use its reasonable endeavours, as agent for Netcall, to place the Placing Shares in accordance with a Placing Agreement.

The Placing Agreement is conditional, amongst other things, upon Netcall Shareholders approving the Acquisition and granting authority to the Netcall Board to allot the Placing Shares and disapplying the statutory pre-emption rights necessary to allot the Placing Shares at the Netcall General Meeting. The Placing is also conditional on Telephonetics Shareholders passing the resolutions necessary to approve the Scheme and implement the Acquisition at the Telephonetics General Meeting, the grant of the First Court Order and the admission of the Placing Shares to trading on AIM.

The placing price of 19 pence per Placing Share represents a premium of 38.18 per cent. to the closing middle market price of 13.75 pence per Netcall Share on 28 May 2010, being the last Business Day prior to the date of the Announcement.

Netcall has obtained advance clearance from HMRC for the Placing Shares to be treated as qualifying holdings within the meaning of Part 6 of the Income Tax Act 2007. In order for the Placing Shares to meet the qualifying criteria for a VCT under the relevant legislation, Netcall will conduct the Placing via a split admission process, in the following manner:

Date	*VCT funds*	*Number of Placing Shares*	*Placees*
First Admission, on 26 July 2010	VCT funds raised after 6 April 2006	5,789,473 New VCT Placing Shares	ISIS
Second Admission, on 27 July 2010	VCT funds raised before 6 April 2006	12,631,579 Old VCT Placing Shares 3,947,368 Old VCT Placing Shares	ISIS Octopus

Immediately following Admission, ISIS will have an interest in 18,421,052 Netcall Shares representing approximately 15.12 per cent. of the Enlarged Share Capital. At the date of this document, Octopus has an interest in 7,054,699 Telephonetics Shares and, immediately following Admission is expected to have a total interest in 6,118,098 Netcall Shares representing approximately 5.02 per cent. of the Enlarged Share Capital (assuming, in each case, that all in-the-money options held under the Telephonetics 2005 Scheme and the Telephonetics Unapproved Options are exercised).

2.3 New Netcall Shares and Placing Shares

The New Netcall Shares and the Placing Shares will be issued credited as fully paid, and on identical terms to and will rank *pari passu* with the existing Netcall Shares, including the right to receive and retain all dividends and other distributions declared, paid or made on Netcall Shares after the relevant date of allotment.

The Placing Shares will, on the date of allotment, represent approximately 25.84 per cent. of the issued share capital of Netcall as enlarged by the Placing (but excluding the New Netcall Shares to be allotted pursuant to the Acquisition) or approximately 18.36 per cent. of the issued share capital of Netcall as enlarged by the Placing and the New Netcall Shares to be allotted pursuant to the Acquisition (assuming, in each case, all in-the-money options held under the Telephonetics 2005 Scheme and the Telephonetics Unapproved Options are exercised).

The New Netcall Shares to be issued pursuant to the Scheme will, on the Effective Date, represent approximately 28.94 per cent. of the issued ordinary share capital of the Enlarged Group (assuming that all in-the-money options held under the Telephonetics 2005 Scheme and the Telephonetics Unapproved Options are exercised).

3. Background to and reasons for the Acquisition and the Placing

3.1 Acquisition

Netcall operates in a highly fragmented software and IT market place, ranging from substantial providers offering a broad range of integrated services to a large number of smaller and niche players. The Netcall Board believes Netcall has a good position in its market niches within the call centre and contact solutions sectors and that Netcall is considered a trusted partner by its customer base. Netcall remains committed to its strategy of providing communication solutions which drive customer cost reductions and efficiency improvements while enhancing customer satisfaction. It delivers solutions on both an initial licence fee model and a *SaaS* model. Netcall has, since a turnaround in 2004 by the current management team, been profitable and cash generative in every subsequent financial year. The Netcall Board has been encouraged by the strategic progress achieved so far, most recently being the acquisition and integration of Q-Max, a UK-based provider of workforce management software to contact centres. As announced in its interim results in March 2010 for the period ended 31 December 2009, Netcall continues to pursue an acquisitive growth strategy with a view to increasing critical mass, achieving greater market penetration and delivering long term shareholder value.

The Netcall Board has been evaluating acquisition opportunities in the sector as part of the strategy review to broaden its products portfolio. As part of this process, Netcall identified Telephonetics' product portfolio and customer base as being complementary to Netcall. In

2009, Netcall commenced initial discussions with Telephonetics with a view to an acquisition of Telephonetics by Netcall. The boards of Netcall and Telephonetics have recently concluded the terms of the offer now being made by Netcall for Telephonetics.

The Netcall Board believes that the Acquisition is synergistic and that the Enlarged Group:

- will create a combined entity with an enhanced proposition for customer interaction solutions;
- will have a broadened and improved product offering through the addition of workforce management and callback products to Telephonetics' solution portfolio;
- will significantly increase the customer base and allow a greater opportunity for cross selling Netcall solutions into the Telephonetics base of NHS and public sector customers as well as cross selling Telephonetics' speech automation and data integration solutions into Netcall's corporate customers;
- will broaden the major telecommunication reseller channels available to each business and sale of each other's solutions;
- will add further skilled engineering and technical expertise to create an Enlarged Group with in excess of 130 employees, thus providing an enhanced ability to deliver solutions to the customers of the Enlarged Group;
- will benefit from cost synergies as a result of the removal of duplication of head office costs as well as the increased scale of the enlarged business; and
- will increase the presence of the Enlarged Group in its fragmented markets.

3.2 Placing

Netcall proposes to utilise the net proceeds of the Placing to part finance the Acquisition and for general working capital requirements.

4. Information on Netcall

4.1 Introduction

Netcall is a Cambridge based company and its ordinary shares are admitted to trading on AIM. Netcall designs, develops and markets a range of callback, auto messaging and contact and workforce management solutions to organisations of a wide range of sizes and industry sectors, including many blue-chip companies. Netcall generates revenue from software licences, plus support and maintenance and the provision of its products through a *SaaS* model. The run rate aggregate revenues from support and maintenance and the *SaaS* model are of a recurring nature and exceed the Netcall Group's operating costs.

4.2 History

Netcall was incorporated in 1984 to supply and maintain computer hardware and software. Following a re-organisation, the emphasis of Netcall's business was moved towards the communications sector when Netcall began to specialise in developing communications software in simpler telephony systems. In 1996, Netcall's shares were admitted to trading on AIM.

In 2000, Netcall expanded its services with its patented *QueueBuster®* solution, which has become Netcall's flagship product. *QueueBuster®* is a UK callback and queue management system with a broad customer base across many market sectors.

In September 2003, Netcall launched a hosted version of *QueueBuster®*, which requires no initial capital investment and allows customers to pay for services as they use them. Netcall subsequently signed a distribution agreement with BT's Global Services division, appointing it as a distributor for *QueueBuster®*. This increased Netcall's market presence, enabling Netcall to reach more potential customers and broaden its pipeline. Netcall continued expanding its distribution network and won new customers including several blue chip companies who use its *QueueBuster®* technology.

In 2004 and 2005, Netcall concluded the appointment of Henrik Bang as Chief Executive Officer and a significant investment by Gartmore Investment Management. Netcall reported a profit for the half year ended 31 December 2004 and a full year profit for the first time for the year ended 30 June 2005. Netcall has since reported profits for every financial year and has been cash generative.

Netcall continued to develop new products, and launched its *ICP*™ in 2006 and a series of callback, auto-messaging and contact solutions running on its open standard platform a year later.

In 2009, Netcall appointed Michael Jackson as non-executive Chairman. Netcall also successfully completed the acquisition of Q-Max, a UK-based provider of workforce management software to contact centres, in October 2009. The acquisition enhanced Netcall's product offering and Netcall technology has since been integrated into the Q-Max software and released to market. In addition, Q-Max functionality has been migrated onto Netcall's hosted platform to enable the delivery of a *SaaS* solution. It has facilitated cross-selling opportunities across the enlarged Netcall customer base.

4.3 Products

The Netcall Group offers the following communication services to its customers:

4.3.1 Callback solutions

Netcall callback solutions are *QueueBuster*® and *CallmeBack*, which are designed to improve call centre and website performance and sales.

QueueBuster® is Netcall's flagship product and eliminates the need for call centre customers to queue by allowing them to leave their details and hang up. *QueueBuster*® then automatically calls the customer back when an agent becomes available.

CallMeBack handles enquiries from online customers or customers in branches who cannot be handled immediately by onsite staff.

4.3.2 Auto-messaging solutions

InTouch enables customers to make outbound proactive telephone calls to their clients without using staffing resources. Using a combination of recorded messages and text-to-speech, *InTouch* is an automated message delivery to clients and encourages them to contact Netcall's customers.

Identifier helps companies understand the profile of their customers who telephone them. Calls are routed to the appropriate destination through Netcall's *ICP*. *Identifier's* online management information system helps organisations monitor performance.

Campaign Manager allows in-bound call centres to make automated out-bound calls without reconfiguration of the existing call centre infrastructure. The solution delivers benefits in agent utilisation by blending in-bound and out-bound calls.

4.3.3 Contact solutions

Netcall offers the following contact solutions to its customers:

FirstContact™ provides one number for customers to call, greets them automatically and gives them a short menu of routing options.

VirtualACD provides *ACD* functionality without up-front investment in contact centre equipment. For example, offshoring calls after working hours, diverting calls to an outsourced contact centre or sharing calls amongst offices or linking in remote home workers.

Connect All is a conferencing facility.

4.3.4 Q-Max workforce management

In October 2009, Netcall acquired Q-Max, a UK-based provider of workforce management software to contact centres. The software allows managers to forecast the volume of transactions that a contact centre will be required to handle and to schedule the optimal number of agents to meet the anticipated demand, improving productivity and the customer experience. Netcall technology has since been integrated into the

Q-Max software and a Q-Max solution has been made available on Netcall's hosted platform. As a result, Netcall announced in March 2010 two new hosted products, *Q-Scope* and *Q-Me* under the *Q-Max* brand.

All Netcall's applications can be supplied as fully managed hosted services or as in-house equipment. These callback solutions can be run both on hardware at a client's location or as a supported service, hosted remotely and delivered as a *SaaS* solution, designed to enable a rapid low-cost, low-risk and flexible set-up with no capital investment.

Netcall has integrated its solutions with a range of *ACD* platforms, *carrier switches*, *network routing* and *computer telephony integration systems*.

Netcall is a Gold member of the Avaya developer program and has also received the Cisco Developer Program accreditation.

4.4 Employees

As at 31 May 2010, the number of employees (including the Netcall Directors) of Netcall Group was as follows:

Sales and marketing	14
Customer services and development	7
Administration	6
	27

4.5 Netcall – current trading

On 1 June 2010, the Netcall Board reported that trading in the second half of its financial year had progressed according to plan; revenues of a recurring nature and cash position had increased, the Netcall Group had continued to win new business and had a healthy pipeline. Whilst market conditions remained challenging and recent economic turmoil added an element of uncertainty which may affect the timing of contracts, the Netcall Board remained confident of a successful outcome to the year.

In line with the treatment of acquisition costs under the currently applicable IFRS whereby costs in relation to the Acquisition are recognised as incurred, it is expected that the majority of such costs will fall within the financial year ending 30 June 2010, despite the fact that completion of the Acquisition is not expected to occur until the next financial year. Consequently, the costs associated with the Acquisition are expected to have a material impact on Netcall's results for the financial year ending 30 June 2010.

Nothing in this document is intended to be a profit forecast and the statements in this document should not be interpreted to mean that the earnings per share for the current or future financial periods will necessarily be greater than those for the relevant preceding financial period.

4.6 Summary financial information

Set out below is a summary of Netcall's summary financial information for the last three financial years ended 30 June 2009 and the six month period ended 31 December 2009. This information has been extracted without alteration from the audited consolidated accounts and interim results of the Netcall Group as incorporated by reference in Part III of this document.

	Six months ended 31.12.2009	*Year ended 30 June 2009*	*2008*	*2007*
	£000	*£000*	*£000*	*£000*
Turnover	1,860	3,931	3,601	4,112
Profit before taxation	102	755	509	767
Profit after taxation	106	755	1,069	767
Cash and cash equivalents	1,903	4,163	2,915	2,361
Net assets as at period/year end	4,995	4,489	3,947	2,678

5. Information on Telephonetics

5.1 Introduction

Telephonetics is a UK-based company quoted on AIM that provides business solutions that enable its clients to streamline the interaction with their own customers, thereby enhancing service levels, increasing efficiency and reducing overall operating costs. These solutions are built upon its own platforms: SEMAP+ communications platform (Speech Enabled Multi-Application Platform) which blends advanced speech recognition and voice automation; and Eden which enables data integration.

Its platforms have been deployed over 500 times to date, notably in the health, local government, corporate and cinema industries.

5.2 History

Telephonetics was founded in 1993 by William Burgar and Anthony McKay (with one other person who subsequently left Telephonetics in 1995). Prior to its admission on AIM in 2005, Telephonetics achieved several key milestones including the sale of its first interactive cinema system in 1994, the introduction of the first nationwide film information system that incorporated an element of speech recognition for Odeon cinemas in 1998 and the launch of *MovieLine®*, the first nationwide speech-driven cinema service in 2003.

In 2005, in addition to its flotation on AIM, Telephonetics was listed as an accredited supplier to the NHS by the NHS purchasing and supplies authority and made its first sales of its *ContactPortal®* product in Europe.

In 2006, Telephonetics acquired Voice Integrated Products Limited, a UK-based advanced speech recognition and computer telephony group with a focused health and public sector customer base. The acquisition substantially increased the Telephonetics Group's customer base, with Mark Brooks, the co-founder of the company, subsequently being appointed as non-executive director of Telephonetics on 10 March 2008.

Telephonetics acquired Datadialogs, a specialist provider of codeless business solutions in 2009. The acquisition was part of the Telephonetics Group's strategy to broaden telephony solutions to enable more effective customer interaction.

5.3 Products

Telephonetics currently has three core product/service lines:

5.3.1 MovieLine®

MovieLine® is a voice activated film information and booking service used by a majority of multiplex cinemas in the UK. Major customers are Cineworld and Odeon-UCI, who have contracts with Telephonetics for the *MovieLine®* service for periods of between five to six years from their effective dates. These long term contracts represent recurrent revenues for the Telephonetics Group.

The *MovieLine®* service includes the following features:

- the system will ask for the caller's chosen cinema or it can identify the nearest cinema if the call is from a landline;
- callers can ask for details of a chosen film, or can listen to a description of all films being shown;
- callers can book tickets;
- if a caller has a special requirement, such as disabled seating, the system can divert the call to an operator; and
- whilst the system predominantly uses speech recognition, it also gives users an option of entering details using touchtone dialing.

MovieLine® generates three principal sources of revenue for Telephonetics:

- service fees received from the cinema;
- a percentage of the ticket booking fees for any tickets booked using the *MovieLine®* system; and
- caller revenue – a proportion of the "0871" call revenue paid by the caller.

Each *MovieLine*® contract has its own mix of these three types of revenue.

5.3.2 SEMAP+ (Speech Enabled Multi-Application Platform)

SEMAP+ is Telephonetics' software platform, which supports its applications including:

- *Contact Centre 59R*
  An *ACD* solution that routes calls using variables such as skills and priority, delivering a balanced workload across the answering groups.
- *Information*
  Provides callers with personalised information.
- *Reporting*
  Allows callers to report issues, verifies and passes information to the customer's CRM system.
- *Surveys*
  Gathers customer feedback quickly, anonymously and accurately.
- *Mail-2-Me*
  Collects and verifies name and address details. Registers document choice and passes information to a customer's CRM system for posting.
- *Payments*
  Provides quick, easy, secure payment processing or direct debit administration for callers.
- *Locator*
  Informs the caller where the nearest facility, store or service is located.
- *Confirmer*
  Uses, telephone, SMS, pager or email to deliver messages to groups of people in time critical situations with response confirmation and reporting.
- *Remind+*
  Uses telephone, SMS, pager or email to deliver a personalised reminder for an appointment with attendance response reporting.
- *Operator*
  An application that does the job of a switchboard operator.
- *Messenger+*
  A combined voicemail, text, fax and email messaging solution.
- *Result*

  An application that allows callers to ring a specified number and obtain results of an enquiry.

5.3.3 Eden

The *Eden* technology acquired as part of Telephonetics' acquisition of Datadialogs forms a part of Telephonetics' end-to-end customer interaction strategy. It is a *SOA* platform that enables rapid deployment of codeless solutions that integrate with a wide variety of existing back office systems. *Eden* solutions can integrate in real time with many existing IT infrastructures, allowing *Eden* to bring together disparate systems into a unified environment and allowing access to data from multiple systems on tailored screenshots.

5.4 Market and growth strategy

The Telephonetics Group strategy is to provide solutions that enable effective end-to-end customer interaction. Used appropriately, smart technology, such as Telephonetics' SEMAP+ platform, can transform this interaction, delivering benefits along the way in terms of improved service levels and increased efficiency. Telephonetics' customers are keen to reap these benefits and maximise retention of their own customer base as part of their business strategies. In the private sector, the economic climate serves to increase the value inherent in repeat business and loyal customers. In the public sector, authorities are under pressure to deliver more to their citizens with less resource. Effective customer interaction is therefore clearly an important component if these strategies are to be successful.

In local authorities, Telephonetics' solutions are now recognised as a tool in order to help those organisations achieve their goals. Furthermore, using the SEMAP+ technology, Telephonetics is able to blend self-service with the use of live agents to provide a superior service at reduced cost.

Telephonetics also continues to sell applications in the acute health sector. Sales of its speech-driven call steering, which can replace switchboard operators, continue to expand both in terms of the number of customer sites deploying it and the number of existing customers upgrading their internally used solutions for the benefit of external callers. The multi-application platform capability remains a key competitive advantage and making complex self-service applications accessible in a pre-packaged form has been a continued focus.

Telephonetics continues to focus on key strategic alliances. In the public sector Telephonetics has enhanced its relationship with Lagan, the major *CRM* provider for UK and North American local authorities. In the health sector Telephonetics has recently completed the integration with Blithe Systems' Lilie product line. Blithe Systems is a UK based provider of clinical management systems for sexual health. This allows Telephonetics to integrate its Result application, for managing patient sexual health tests, directly with a clinic's back office systems.

5.5 Employees

As at 31 May 2010, the number of employees (including the Telephonetics Directors) of Telephonetics Group was as follows:

Operations	36
Research and development	19
Sales and marketing	45
General and administration	18
	118

5.6 Telephonetics – current trading

The Telephonetics Board believes that it has made a good start in 2010 and that trading for the first five months of the financial calendar has been in line with expectations, with the rate of new customer acquisitions and sales orders greater than in the corresponding period last year.

5.7 Telephonetics financial information

Set out below is a summary of Telephonetics' summary financial information for the three financial years ended 30 November 2009. The financial information has been extracted from the audited IFRS accounts of Telephonetics for the years ended 30 November 2008 and 2009, as set out in Part IV of this document.

	Year ended 30 November		
	2009	*2008*	*2007*
	£000	*£000*	*£000*
Turnover	10,510	9,951	9,667
Profit before taxation	413	1,071	139
Profit after taxation	355	951	181
Cash and cash equivalents	5,114	5,389	4,028
Net assets as at period/year end	15,031	14,370	13,395

6. Netcall Directors and Proposed Netcall Directors

Assuming the Scheme becomes effective, James Ormondroyd, Michael Neville and Mark Brooks will join the Enlarged Board. Each of them has entered into service agreements or letter of appointment with Netcall, which are conditional on the Scheme becoming effective. Anthony McKay and William Burgar have agreed to resign from the Telephonetics Board conditional upon and with effect from the Effective Date. Further details in relation to these arrangements are set out in paragraph 8 of Part VII of this document.

6.1 Present Netcall Directors

Michael Jackson, (*Chairman*) aged 60, joined the Board in 2009. He founded Elderstreet Investments Limited in 1990 and is its Executive Chairman. For the past 25 years, he has specialised in raising finance and investing in smaller quoted and unquoted companies. Michael has been Chairman of two FTSE 100 companies and from 1997 until 2006 was the Chairman of The Sage Group plc.

Henrik Bang, (*Chief Executive Officer*) aged 52, joined Netcall in 2004. He was previously Vice President in GN Netcom, part of the Danish OMX listed GN Great Nordic Group. Henrik also held a number of international management positions in IBM and AP Moller-Maersk Line.

Roger Allsop, (*Non-executive Director*) aged 66, joined the Board in 1987. Roger is also a non-executive Director of Tricorn Group plc, Chairman of Malvair Properties Ltd and was formerly Managing Director of Westwood Dawes plc.

6.2 Proposed Netcall Directors

James Ormondroyd, (*Group Finance Director*) aged 38, joined Telephonetics as a director in 2005. He was previously the Finance Director and Company Secretary at World Television Group plc, an AIM quoted corporate communications company, and before that was a Finance Director of Virtue Broadcasting. James is also the Company Secretary of Telephonetics and is a member of the Institute of Chartered Accountants in England and Wales.

Michael Neville, (*Non-executive Director*) aged 54, was appointed to the Telephonetics Board as Non-Executive Chairman in 2005. He has extensive experience in capital markets and serves as non-executive director for a number of AIM quoted companies. His background is in the telecommunications and technology and media arena, where he has worked for the last 18 years, specialising in strategy and mergers and acquisitions for public and private companies.

Mark Brooks, (*Non-executive Director*) aged 45, was appointed to the Telephonetics Board as a Non-Executive Director in 2008. He co-founded Voice Integrated Products Ltd in 1991, which was acquired by Telephonetics in July 2006, serving as both Technical Director and Managing Director. His background combines software technology with strategic sales and marketing. Mark is a graduate of Exeter University with a combined degree in Physics and Mathematics, specialising in acoustics.

6.3 Incentivisation arrangements for Telephonetics' management

Upon the Scheme becoming effective, the Enlarged Group will consider the long-term incentivisation of its key staff which may include the award of new options over Netcall Shares.

Save as described above, there have been no discussions between Netcall and Telephonetics in relation to incentivisation arrangements for Telephonetics' management.

7. Strategy for the Enlarged Group

The Enlarged Board aims to continue developing the existing business of Netcall and Telephonetics by providing to its enlarged customer base the wider range of solutions in the Enlarged Group portfolio. The strategy of the Enlarged Group is to continue increasing shareholder value as a result of increased market penetration combined with continuing cost control and the expected synergies and cost savings arising from the Acquisition.

The Enlarged Board also intends to grow the Enlarged Group revenue organically in its existing market segments and take advantage of the acquisitive growth opportunities within its target markets.

8. Telephonetics Shareholder and Netcall Shareholder undertakings and letters of intent

8.1 Telephonetics Shareholders

Netcall has received the following irrevocable undertakings to vote (or procure the voting) in favour of the Scheme at the Telephonetics Court Meeting and in favour of the special resolution to be proposed at the Telephonetics General Meeting in respect of a total of 63,326,142 Telephonetics Shares, representing in aggregate approximately 57.51 per cent. of the existing issued Telephonetics Shares, of which 46.19 per cent. are held by the Telephonetics Directors who hold Telephonetics Shares:

Name	*Number of Telephonetics Shares committed*	*Percentage of entire existing issued share capital of Telephonetics*
Mr M Neville[1 2]	804,514	0.73
Mr A McKay[1 2 3]	19,630,994	17.83
Mr M Brooks[1 2 4]	10,939,255	9.94
Mr W Burgar[1 2 5]	19,480,994	17.69
	50,855,757	46.19
Mr J Sandon-Allum[1 6]	5,415,686	4.92
Octopus AIM VCT[7]	4,100,000	3.72
Octopus IHT AIM VCT[7]	1,523,432	1.38
Octopus Second AIM VCT[7]	1,431,267	1.30
	63,326,142	57.51

Notes:

1. These irrevocable undertakings remain binding, even if a higher competing offer is announced by a third party, unless the Scheme lapses or is withdrawn other than as specified below
2. The irrevocable undertakings also cover options over Telephonetics Shares granted under the Telephonetics 2005 Scheme and the Telephonetics Unapproved Options. Pursuant to such undertakings, the Telephonetics Directors concerned have irrevocably agreed to either (i) accept, when made, the proposals to Option Holders; or (ii) exercise in full the relevant options prior to the Scheme Record Date. The number of Telephonetics Shares stated as being irrevocably committed excludes any Telephonetics Shares arising from the exercise of options over Telephonetics Shares
3. The number of Telephonetics Shares irrevocably committed does not include options over 657,895 Telephonetics Shares granted by Anthony McKay to Cineworld Cinemas Limited which expire on or around 7 May 2012
4. The number of Telephonetics Shares irrevocably committed does not include 1,970,588 Telephonetics Shares held under his pension fund
5. The number of Telephonetics Shares irrevocably committed does not include options over 657,895 Telephonetics Shares granted by William Burgar to Cineworld Cinemas Limited which expire on or around 7 May 2012
6. The number of Telephonetics Shares irrevocably committed does not include 917,647 Telephonetics Shares held under his pension funds
7. These irrevocable undertakings will lapse in the event that a "Higher Competing Offer" for Telephonetics is announced. "Higher Competing Offer" means an offer which exceeds 10 per cent. or more of the consideration per Scheme Share payable under the Acquisition

8.2 Netcall Shareholders

Netcall has received irrevocable undertakings from the following Netcall Shareholders to vote (or procure the voting) in favour of the Acquisition at the Netcall General Meeting in respect of 16,007,176 Netcall Shares, representing in aggregate approximately 24.93 per cent. of the existing issued Netcall Shares, of which approximately 4.64 per cent. are beneficially held by the Netcall Directors:

Name	*Number of Netcall Shares committed*	*Percentage of entire existing issued share capital of Netcall*
Mr R Allsop	1,250,000	1.95
Mr H Bang	930,000	1.45
Mr M Jackson	800,000	1.24
	2,980,000	4.64
Gartmore UK & Irish Smaller Companies Fund	250,000	0.39
Tartan Investment Partners, L.P.	12,777,176	19.90
	16,007,176	24.93

These irrevocable undertakings will continue to be binding in the event of a higher competing offer for Telephonetics being announced, and cannot be withdrawn other than in the event of the Scheme lapsing or being withdrawn.

Netcall has also received a letter of intent from Bluehone Investors LLP confirming its intention to vote (or procure the voting) in favour of the Acquisition to be proposed at the Netcall General Meeting in respect of a total of 5,915,242 Netcall Shares, representing in aggregate approximately 9.21 per cent. of the existing issued Netcall Shares.

9. Implementation Agreement and Inducement Fee Agreement

9.1 Implementation Agreement

Telephonetics and Netcall have entered into the Implementation Agreement in connection with the Acquisition, pursuant to which each of the parties has undertaken, among other things, and, as promptly as practicable, to co-operate and take or cause to be taken all such reasonable steps as are within their respective powers and necessary to implement the Scheme, subject always to their respective duties and obligations under applicable law and the City Code.

Each of Telephonetics and Netcall has agreed that prior to the Scheme becoming effective or the Implementation Agreement being terminated in accordance with its terms (whichever is earlier), each of Telephonetics and Netcall will conduct their respective businesses in the ordinary and normal course and not do or omit to take any action which will or would reasonably be expected to result in any of the Conditions not being satisfied.

9.2 Inducement Fee Agreement

As an inducement and in consideration of Netcall completing its due diligence investigations into Telephonetics, Telephonetics has agreed to pay Netcall an inducement fee equal to one per cent. of the value of Telephonetics (inclusive of any VAT), calculated by reference to the value of the Offer as set out in the Announcement and by reference to the fully diluted ordinary share capital of Telephonetics if: (i) a Competing Proposal is announced and is successful; or (ii) the Telephonetics Board's recommendation is withdrawn, qualified or modified; or (iii) the Telephonetics Shareholders' resolutions required to implement the Acquisition are not passed; or (iv) a breach of any of Telephonetics' exclusivity undertakings given to Netcall.

As an inducement and in consideration of Telephonetics completing its due diligence investigations into Netcall, Netcall has agreed to pay Telephonetics an inducement fee equal to one per cent. of the value of Telephonetics (inclusive of any VAT), calculated by reference to the value of the Offer as set out in the Announcement and by reference to the fully diluted ordinary share capital of Telephonetics, if: (i) Netcall proposes that the board of directors of the Enlarged Group to be other than three current Telephonetics Directors and three current

Netcall Directors; or (ii) the Netcall Shareholders' resolutions necessary to implement the Acquisition at the Netcall General Meeting are not passed; or (iii) a breach of any of its exclusivity undertakings by Netcall.

The first party which becomes liable to pay an inducement fee pursuant to the Inducement Fee Agreement shall pay to the other party the relevant inducement fee and the other party shall not be required to pay an inducement fee.

Nothing in the Inducement Fee Agreement shall oblige Telephonetics or Netcall to pay any amount which the Panel would determine would not be permitted by Rule 21.2 of the City Code or which is prohibited by law.

10. Lock-in Agreement

Each of Michael Neville, Mark Brooks, Anthony McKay and William Burgar who, upon the Scheme becoming effective, will hold New Netcall Shares have agreed not to dispose of any interest in those shares held by them or their associates at the date of Admission of the New Netcall Shares to trading on AIM for a period of twelve months following such Admission (subject to certain limited exceptions).

11. Dividend policy

Netcall has not declared any dividends. The Enlarged Board currently propose to re-invest the Enlarged Group's earnings to finance the growth of the business and does not currently envisage paying a dividend in the short term.

12. Corporate governance

The Company is quoted on AIM and is therefore not required to comply with the provisions of the Financial Reporting Council 2008 Combined Code (or, from 30 June 2010, the UK Corporate Governance Code). The Netcall Board recognises the importance of sound corporate governance commensurate with the size of the Company and the interests of Netcall Shareholders.

The Netcall Board generally meets a minimum of eleven times a year to consider the Company's strategy, review trading performance and funding, formulate policy on key issues, with independent advice obtained if necessary.

The audit committee is chaired by Roger Allsop and consists of Mr. Allsop and Michael Jackson. It meets twice a year and is responsible for ensuring the financial performance of the Netcall Group is properly reported and monitored, for meeting the auditors at least once a year and reviewing the reports from the auditors relating to the accounts and internal control systems.

A remuneration committee, also chaired by Roger Allsop, consists of Mr. Allsop and Michael Jackson, and meets at least twice annually. Its principal functions are to determine the Company policy for executive remuneration and reward and the granting of share options to employees.

Given the Netcall Group's size and the nature of its business, the Netcall Board does not consider it necessary to have its own internal audit function. Such a facility will be established as and when the Netcall Group is of an appropriate size. Currently the internal control is maintained by a system of financial procedures designed to meet the particular needs of the Netcall Group.

The Netcall Board remains fully committed to maintaining regular communication with its shareholders. There is regular dialogue with major institutional shareholders. The Company maintains a website, *www.netcall.com*, on which all press releases in the past twelve months are posted and which also contains the report and accounts and other matters in accordance with AIM Rule 26.

The Enlarged Board recognises the importance of sound corporate governance commensurate with the size of the Enlarged Group and the interests of shareholders. However, the Enlarged Group as an AIM listed entity will not be required to comply with the Financial Reporting Council 2008 Combined Code (or, from 30 June 2010, the UK Corporate Governance Code).

Immediately following completion of the Acquisition, the Enlarged Board will consist of two executive directors and four non-executive directors, with Michael Jackson, as Chairman, holding the casting vote. The audit committee will comprise three non-executive directors, namely Roger Allsop, Michael Jackson and Michael Neville, with Roger Allsop as Chairman. Similarly the remuneration committee will also comprise those three non-executive directors with Roger Allsop as Chairman.

13. Dealings, Admission and settlement

Applications will be made to the London Stock Exchange for the Placing Shares and the New Netcall Shares to be admitted to trading on AIM. In order for the Placing Shares to meet the qualifying criteria for a VCT under the relevant legislation, the Placing is expected to be conducted via a split admission process, with the admission and dealings in the New VCT Placing Shares to commence at 8.00 a.m. on 26 July 2010, and the admission and dealings in the Old VCT Placing Shares to commence at 8.00 a.m. on the next Business Day, on 27 July 2010.

It is expected that the Admission of the New Netcall Shares will become effective and that dealings will commence at 8:00 a.m. on 30 July 2010.

Netcall will apply for the Placing Shares and the New Netcall Shares to be admitted to CREST and it is expected that the Placing Shares and the New Netcall Shares will be so admitted and accordingly enabled for settlement in CREST on their respective dates of Admission. The Existing Netcall Shares are already enabled for settlement in CREST. Accordingly, settlement of transactions in the Enlarged Share Capital following the relevant Admissions may take place within the CREST system if any individual Netcall Shareholder so wishes provided such person is a "system member" (as defined in the CREST Regulations) in relation to CREST.

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument in accordance with the CREST regulations. The articles of association of Netcall permit the holding of Netcall Shares in uncertificated form in accordance with the CREST Regulations. CREST is a voluntary system and holders of Netcall Shares who wish to receive and retain share certificates will be able to do so.

Upon completion of the Acquisition, Telephonetics will become a wholly-owned subsidiary of Netcall and it is expected that the cancellation of admission to trading and dealings in the Telephonetics Shares on AIM will occur on 30 July 2010.

14. United Kingdom taxation

A summary of relevant UK Taxation, included as a general guide only, is set out at paragraph 10 of Part VII (United Kingdom Taxation) to this document.

15. Overseas shareholders

The release, publication or distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom ("**Overseas Shareholders**") should inform themselves about, and observe, any applicable requirements. This document has been prepared for the purposes of complying with English law, the City Code and the AIM Rules for Companies and the information disclosed may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws and regulations of any jurisdiction outside of England and Wales.

This document does not constitute an offer to sell or an invitation to purchase or subscribe for any securities or a solicitation of an offer to buy any securities pursuant to this document or otherwise in any jurisdiction in which such offer or solicitation is unlawful. This document does not constitute a prospectus or a prospectus equivalent document.

The implications of the Acquisition and the Placing for overseas persons may be affected by the laws of the relevant jurisdictions. Overseas persons should inform themselves about and observe any applicable legal requirements. It is the responsibility of each overseas person to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction.

16. The Netcall General Meeting

There is enclosed with this document a Notice convening the Netcall General Meeting for the purposes of considering and, if thought fit, passing the Resolutions. The principal purposes of the Resolutions are as follows:

(a) to approve the Acquisition;

(b) to give authority to the Netcall Directors to allot the New Netcall Shares and the Placing Shares, such authority to expire the earlier of (i) the conclusion of the next annual general meeting of Netcall; and (ii) the date falling 15 months after the date of the Netcall General Meeting; and

(c) to disapply statutory pre-emption rights in respect of the Placing Shares.

17. Further information

Your attention is drawn to Parts II to VII (inclusive) of this document which provide additional information on the matters discussed above.

The whole of this document should be read, and any decision to vote for the Resolutions should be based on consideration of this document as a whole. You should be aware that an investment in the Company involves a high degree of risk and you should carefully consider the section entitled "Risk Factors" set out in Part II of this document.

18. Action to be taken

You will also find enclosed with this Document a Form of Proxy for use by Netcall Shareholders at the Netcall General Meeting. Whether or not you propose to attend the Netcall General Meeting in person, each Netcall Shareholder is requested to complete the Form of Proxy and return it to the Company's registrars, Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen B63 3BR, as soon as possible, but in any event, so as to arrive not later than 48 hours before the time appointed for the holding of the Netcall General Meeting. Completion and return of a Form of Proxy will not preclude a Netcall Shareholder from attending the Netcall General Meeting and voting in person, should you wish to do so.

19. Recommendation

The Netcall Board considers that the Acquisition and the Placing are fair and reasonable and in the best interests of the Company and its shareholders as a whole.

Accordingly, your directors unanimously recommend Netcall Shareholders to vote in favour of the Resolutions, as the Netcall Directors have irrevocably undertaken to do in respect of their entire beneficial holdings of Netcall Shares which together comprise 4.64 per cent of the Existing Netcall Shares.

Yours faithfully

Michael Jackson
Chairman

Part II

RISK FACTORS

In addition to all of the other information set out in this document, potential investors should carefully consider the risk factors set out below which the Netcall Directors and the Proposed Netcall Directors consider to be the most significant to the business of the Enlarged Group.

If any of the circumstances identified in these risk factors were to materialise, the Enlarged Group's business, financial condition and results could be materially and adversely affected. In such cases the price of the Company's shares could decline, and investors may lose all or part of their investment. An investment in Netcall Shares may not be suitable for all recipients of this document. Potential investors are therefore strongly recommended to consult an independent financial adviser authorised under the Financial Services and Markets Act 2000 and who specialises in advising upon the acquisition of shares and other securities before making a decision to invest.

1. Risks relating to the business of the Enlarged Group

1.1 Fluctuations in revenue and achievability of revenue growth

A significant proportion of the Enlarged Group's revenues are derived from a small number of relatively large orders and, accordingly, revenues can fluctuate depending on the timing of deployment of solutions to fulfil these orders. The timing and size of these orders can be affected by factors that are largely outside the Enlarged Group's control. Such factors include delays in customer buying decisions, variations in the demand for the customers' goods and services, delays in customer deployment schedules and the discretionary nature of customer capital expenditure.

In addition, a substantial proportion of the Enlarged Group's anticipated revenue growth for the next two financial years is expected to be generated from the Q-Max and Datadialogs businesses, which were recently acquired by Netcall and Telephonetics respectively. Netcall and Telephonetics are still finalising integration of these businesses. Whilst the Netcall Directors and the Proposed Netcall Directors believe that the Q-Max and Datadialogs businesses will be successfully integrated and able to deliver the revenues forecast by the Enlarged Board for them, the failure to do so or to successfully develop them could have a material and adverse effect on the Enlarged Group's growth, business and financial results.

1.2 High fixed overhead base of the Telephonetics Group

The Telephonetics Group's recurring revenues, being its support revenue and *MovieLine®* revenue, do not cover its fixed costs. Accordingly, its recurring revenue is absorbed by its fixed overheads and its earnings have been historically dependent on sales of new systems and upgrades and the associated professional services. In addition, *MovieLine®* revenues are gradually declining and thereby reducing the level of recurring revenues. No assurance can be given that the Telephonetics Group will continue to secure sales in addition to its recurring revenue and thereby generate profits.

1.3 Significant exposure of the Telephonetics Group to the public sector

The Telephonetics Group has significant exposure to customers in the public sector. In the year ended 30 November 2009, its sales to public sector customers accounted for approximately 50 per cent. of its total sales.

Certain Telephonetics' key contracts with its public sector customers require customer consent before the Telephonetics Group can increase its prices. While the Netcall Directors and the Proposed Netcall Directors do not consider such terms to be unusual in public sector contracts, if the Telephonetics Group is unable to maintain its margins as a result of such or other restrictive terms, its financial results could be materially and adversely affected.

Given the current significant public sector deficit, the Telephonetics Group is exposed to the risks of reduced UK government spending and delays in public sector investment decisions. However, the Netcall Directors and the Proposed Netcall Directors believe that spending on its products should be comparatively resilient as they are designed to add value by reducing waste and improving efficiency.

1.4 Changing public sector procurement environment

The Telephonetics Group was listed as a supplier by the NHS Purchase and Supply Agency ("NHS PASA") under a framework agreement for the provision of specialist voice, video and data telecommunications products and services in 2005, which ended in December 2009. During 2009, the NHS PASA was decommissioned and procurement of non-clinical goods and services was transferred to OGC Buying Solutions (an executive agency of the Treasury) ("OGC"). Telephonetics successfully qualified for and received an invitation to tender for a new framework agreement with OGC, however in March 2010 OGC informed Telephonetics that the tender had been cancelled to ensure that OGC's purchasing frameworks were consistent with the government's newly published IT strategy. NHS customers continue to order products and services with reference to the terms and conditions of the former framework agreement, which have been accepted by Telephonetics, and those terms continue to apply. There is a risk that Telephonetics will not be successful in applying for any new framework arrangement or that future procurement processes will be more complicated or lengthy in the future which could materially and/or adversely affect future financial results.

1.5 Telephonetics Group's dependence on cinema demand and key customers

The business generated by the *MovieLine®* product represented over 30 per cent. of Telephonetics Group's revenue for the year ended 30 November 2009. The *MovieLine®* business is dependent on a number of cinema operators in the UK, of which the demand from these customers in turn depends upon consumer interest in cinema going and, thus, indirectly, upon the major film studios producing a sufficient number of quality films that will generate on-going film viewing interest. It is also dependent on the telephone continuing to be a popular means for consumers to check film showing times and making advance bookings. Increasing use of the internet has adversely affected the *MovieLine®* business and the Netcall Directors and the Proposed Netcall Directors expect this factor to continue to be a threat to the use of the Movieline product for these purposes. If the demand for the *MovieLine®* product were to decline at a rate faster than expected by the Netcall Directors and Proposed Directors for these or other reasons, the financial results of the Enlarged Group could be materially and adversely affected.

1.6 Netcall Group's dependence on key products

The majority of the Netcall Group's sales are derived from its *QueueBuster®* and *Q-Max workforce management solutions* which are primarily marketed to companies operating call centres. In the event that call centre traffic were to decline or the number of call centres was to fall, whether by reason of technological changes or the increased use of consumers of alternative channels of communication or otherwise, the demand for these Netcall products and the Enlarged Group's financial results could be materially and adversely affected.

1.7 Significant exposure of Netcall Group to the financial services sector

The Netcall Group's largest customer segment is the financial services sector. Accordingly, in the event that demand from the financial services sector for the Netcall Group's products were to decline as a result, among other things, of a drop in economic activity generally, turbulence in financial markets, insolvencies or other financial disturbances in the sector or for any other reason, the financial results of the Enlarged Group could be materially and adversely affected.

1.8 Dependency on resellers

A large portion of the Netcall Group's sales are made to a small number of customers who act as resellers of the Netcall Group's products and, similarly, Telephonetics Group's sales to a reseller customer have been in excess of 10 per cent. of its total sales. In the event that one or more of such customers cease to buy or buy less of the Netcall Group's or Telephonetics Group's products or are only willing to do so at a reduced price, the financial results of the Enlarged Group may be materially and adversely affected. This may occur as a result of factors outside the Enlarged Group's control including, among other things, a decline in demand for the Enlarged Group's products from end users, the supply of products competitive with Netcall's products on more favourable terms or with improved performance or a complete or partial withdrawal by these customers from the resale business.

1.9 Competition

The competitors of the Enlarged Group may announce or develop new products, services or enhancements that better meet the needs of customers or changing industry standards. Further, new competitors, or alliances among competitors, could emerge. If one or more of the Enlarged Group's competitors were to merge or partner with another of its competitors, the change in the competitive landscape could adversely affect its ability to compete effectively.

In particular, increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Enlarged Group's business, financial condition and results of operations. The Enlarged Group's competitors may also establish or strengthen co-operative relationships with its sales channel partners or other parties with whom the Enlarged Group has strategic relationships, thereby limiting the Enlarged Group's ability to promote its products. Disruptions in the Enlarged Group's business caused by these events could reduce revenue and profits.

1.10 Technological/Industry standards change

The markets for the Enlarged Group's products are characterised by rapidly changing technology, evolving industry standards and increasingly sophisticated customer requirements. Changing customer requirements, the introduction of products embodying new technology and the emergence of new industry standards may render the Enlarged Group's existing products obsolete and unmarketable and may exert downward pressures on the pricing of its products. It is critical to the success of the Enlarged Group to be able to anticipate changes in technology or in industry standards and to successfully develop and introduce new, enhanced and competitive products on a timely basis. The Enlarged Group cannot give any assurances that it will successfully develop new products or enhance and improve its existing products, that any new products and enhanced and improved existing products will achieve market acceptance or that the introduction of new products or enhancing existing products by others, or changing customer requirements, will not render the Enlarged Group's products obsolete. Any inability of the Enlarged Group to develop products that are competitive in technology and price and that meet customer needs could have a material adverse effect on the Enlarged Group's business, financial condition and results of operations.

In particular, speech technologies may not achieve widespread acceptance by businesses, which could limit the Enlarged Group's ability to grow its speech-recognition based solutions business. The Netcall Group and the Telephonetics Group have invested, and the Enlarged Group expects to invest further, in the acquisition, development and marketing of speech technologies. The ability to increase revenue in the future depends in large measure on acceptance of speech technologies in general and the Enlarged Group's products in particular. The continued development of the market for the Enlarged Group's current and future speech solutions will also depend on the following factors:

- consumer demand for speech-enabled applications;
- development by third party vendors of applications using speech technologies; and
- continuous improvement in speech technology.

Sales of the Enlarged Group's products would be harmed if the market for speech software does not continue to develop or develops more slowly than expected by the Netcall Directors and the Proposed Netcall Directors.

1.11 Dependence upon key intellectual property

The Enlarged Group's success depends in part on its ability to protect its rights in its intellectual property. The Enlarged Group relies upon various intellectual property protections, including patents, copyright, trademarks, trade secrets and contractual provisions, to preserve its intellectual property rights. In particular, the Netcall Group's *QueueBuster®* product is protected by patents in Europe and the US and the Netcall Group maintains registered trade marks in relation to its major products. Telephonetics has a number of trademarks registered in the UK including *MovieLine®* and *ContactPortal®*. Despite these precautions, it may be possible for third parties to obtain and use the Enlarged Group's intellectual property without its authorisation. Third parties may also challenge the validity and/or enforceability of the Enlarged Group's intellectual property rights.

Policing unauthorised use of intellectual property is difficult, and some foreign laws do not protect proprietary rights to the same extent as the laws of the United Kingdom. To protect the Enlarged Group's intellectual property, the Enlarged Group may become involved in litigation, which, even if successful, could result in substantial expense, divert the attention of its management, cause significant delays, materially disrupt the conduct of the Enlarged Group's business or adversely affect its revenue, financial condition and results of operations.

The activities of the Enlarged Group are in a large part reliant on intellectual property rights surrounding licensed-in software such as speech recognition engines. The Netcall Directors and the Proposed Netcall Directors are aware of the supply risk of losing key software partners, which would have an adverse impact on the Enlarged Group. No assurance can be given that alternative software products could be found on terms acceptable to the Enlarged Group or at all and, even if they were found on acceptable terms, the staff of the Enlarged Group may need to be trained in relation to such replacement products, which may cause disruption to the Enlarged Group's business.

1.12 Claims by third parties and open source software

While the Netcall Directors and the Proposed Netcall Directors believe that the Enlarged Group products and other intellectual property do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert that the Enlarged Group's products and other intellectual property infringe, or may infringe, their proprietary rights. Any such claims, with or without merit, could be time consuming, result in costly litigation and the diversion of technical and management personnel, cause product delays or require the Enlarged Group to develop non-infringing technology or enter into royalty or licensing agreements or re-brand products. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Enlarged Group or at all. In the event of a successful claim of product infringement against the Enlarged Group and any failure or inability of the Enlarged Group to develop non-infringing products or licence the infringed or similar products, the Enlarged Group's business, operating results and financial condition could be materially adversely affected.

In particular, the Enlarged Group uses open source software in connection with its products which exposes it to uncertainty and potential liability. This open-source software was developed originally by third parties over whom the Enlarged Group has no control. The Enlarged Group can give no assurance that the open source software and related components used by it do not infringe the intellectual property rights of others. The Enlarged Group could be exposed to infringement claims and liability in connection with the use of such open source software and related components. The developers of open source software are under no obligation to maintain or update the software components, and the Enlarged Group may be forced to replace those components with internally developed or commercially licensed software. Certain open source software licences provide that any software that makes use of or incorporates components distributed under that licence will itself become subject to the same general distribution rights and other terms of that licence. As a result, there is a risk that third parties, including the Enlarged Group's competitors, could have the right to use and distribute certain elements of the Enlarged Group's software products.

1.13 Regulatory framework

Certain activities of the Enlarged Group are required to be conducted in accordance with the appropriate regulatory framework, in particular that set out by the Office of Communications ("Ofcom"). There can be no guarantee in the future that changes made to the appropriate regulatory framework will not impact on the Enlarged Group in a way which may have an adverse effect on its business.

1.14 Integration of the Telephonetics Group may not successful

The Netcall Directors and Proposed Netcall Directors believe that, following the Acquisition, the Enlarged Group will benefit from a degree of synergies and cost savings. The success of the Acquisition will be partially dependent on the ability to successfully integrate the Telephonetics Group. No assurance can be given that the Telephonetics Group can be effectively integrated and these synergies or cost savings will arise. Failure to achieve such cost savings or synergies may adversely impact the Enlarged Group's business, financial condition and operating results.

1.15 Acquisitions

In the future, the Enlarged Group may engage in selective acquisitions of companies, products or businesses that it believes are complementary to its products or business. There is a risk that the Enlarged Group will not be able to identify suitable acquisition candidates available for sale at reasonable prices, complete any acquisition, or successfully integrate any acquired product or business into its operations. The Enlarged Group is likely to face competition for acquisition candidates from other parties including those that have substantially greater available resources. Acquisitions may involve a number of other risks, including:

- diversion of management's attention;
- disruption to the Enlarged Group's ongoing business;
- failure to retain key acquired personnel;
- difficulties in integrating acquired operations, technologies, products or personnel;
- unanticipated expenses, events or circumstances;
- assumption of disclosed and undisclosed liabilities; and
- inappropriate valuation of the acquired company, product or business.

If the Enlarged Group does not successfully address these risks or any other problems encountered in connection with an acquisition, the acquisition could have a material adverse effect on the Enlarged Group's business, results of operations and financial condition. Problems with an acquired business could have a material adverse effect on the Enlarged Group's performance or its business as a whole. In addition, if the Enlarged Group proceeds with an acquisition, the Enlarged Group's available cash may be used to complete the transaction, diminishing its liquidity and capital resources, or shares may be issued which could cause significant dilution to existing shareholders.

1.16 Key personnel

The Enlarged Group depends on the services of its key technical, sales, marketing and management personnel. The loss of the services of any one or more of these persons could have a material adverse effect on the Enlarged Group business, results of operations and financial condition. The success of the Enlarged Group is also highly dependent on its continuing ability to identify, hire, train, motivate and retain highly qualified technical, sales, marketing and management personnel. Competition for such personnel can be intense, and the Enlarged Group cannot give any assurance that it will be able to attract or retain highly qualified technical, sales, marketing and management personnel in the future. Any inability of the Enlarged Group to attract and retain the necessary technical, sales, marketing and management personnel may adversely affect its future growth and profitability. It may be necessary for the Enlarged Group to increase the level of remuneration paid to existing or new employees to such a degree that its operating expenses and profitability could be materially and adversely effected.

1.17 System failures and breaches of security

The successful operation of the Enlarged Group's business depends upon maintaining the integrity of the Enlarged Group's computer, communication and information technology systems. However, these systems and operations are vulnerable to damage, breakdown or interruption from events which are beyond the Enlarged Group's control, such as fire, flood and other natural disasters; power loss or telecommunications or data network failures; improper or negligent operation of the Enlarged Group's system by employees, or unauthorised physical or electronic access; and interruptions to Internet system integrity generally as a result of attacks by computer hackers or viruses or other types of security breaches. Any such damage or interruption could cause significant disruption to the operations of the Enlarged Group. This could be harmful to the Enlarged Group's business, financial condition and reputation and could deter current or potential customers from using its services.

No assurance can be given that the Enlarged Group's security measures in relation to its computer, communication and information systems will protect it from all or any potential breaches of security, and any such breach of security could have an adverse effect on the Enlarged Group's business, results of operations and/or financial condition.

1.18 Dividends

The Netcall Directors and the Proposed Netcall Directors do not currently anticipate that Netcall will pay dividends in the short term. Furthermore, no assurance can be given that the Enlarged Group will be able to pay dividends in the foreseeable future.

1.19 Financial resources

In the opinion of the Netcall Directors and the Proposed Netcall Directors, having made due and careful enquiry, taking into account the net proceeds from the Placing, and the bank and other facilities available to the Enlarged Group, the working capital available to the Enlarged Group will be sufficient for its present requirements, that is for at least the next 12 months from the date of Admission of the New Netcall Shares. After that period the Enlarged Group's future capital requirements will, however, depend on many factors, including its ability to maintain and expand its customer base, its sales, cash flow and control of costs and the execution of any material acquisitions. After that period, the Enlarged Group may require additional funds and may attempt to raise additional funds through equity or debt financings or from other sources. Any additional equity financing may be dilutive to holders of Netcall Shares and any debt financing, if available, may require restrictions to be placed on the Enlarged Group's future financing and operating activities. The Enlarged Group may be unable to obtain additional financing on acceptable terms or at all if market and economic conditions, the financial condition or operating performance of the Enlarged Group or investor sentiment towards the Enlarged Group in particular or towards the market sector in which the Enlarged Group operates are unfavourable. Any inability of the Enlarged Group's to raise additional funding may hinder its ability to grow in the future or to maintain its existing levels of operation.

1.20 Taxation

Any change in the Enlarged Group tax status or in taxation legislation in any jurisdiction in which the Enlarged Group operates could affect the Company's financial condition and results and its ability (if any) to provide returns to Shareholders. Statements in this document concerning the taxation of investors in Netcall Shares are based on current UK tax law and practice which is subject to change. The taxation of an investment in the Company depends on the individual circumstances of investors.

2. Risks relating to the Netcall Shares

2.1 Investment in AIM securities

An investment in shares traded on AIM is perceived to involve a higher degree of risk and be less liquid than investment in companies whose shares are listed on the Official List of the UK Listing Authority and traded on the London Stock Exchange's market for listed securities.

Prospective investors should be aware that the value of Netcall Shares may go down as well as up and that the market price of the Netcall Shares may not reflect the underlying value of the Enlarged Group. Investors may, therefore, realise less than, or lose all of, their investment.

2.2 Potentially volatile share price and liquidity

The share price of quoted emerging companies can be highly volatile and shareholdings may be illiquid and difficult to realise. The price at which the Netcall Shares are quoted and the price at which investors may realise for their Netcall Shares may be influenced by a significant number of factors, some specific to the Enlarged Group and its operations or the market in which it operates and some which affect quoted companies generally. These factors could include the performance of the Enlarged Group, divergence in financial results from analysts' expectations, changes in earnings estimates by analysts, overall market or sector sentiment, large purchases or sales of Netcall Shares, legislative changes and general, economic, political or regulatory conditions and other events and factors outside of the Enlarged Group's control. Stock markets have from time to time experienced severe price and volume fluctuations, a recurrence of which could adversely affect the market price for the Netcall Shares.

2.3 Exercise of pre-emption rights by overseas shareholders

In the case of an allotment of Netcall Shares for cash, the Company's existing shareholders are entitled to pre-emptive rights pursuant to the Act, unless waived by a special resolution of the Netcall Shareholders at a general meeting. If the Company allots Netcall Shares for cash in the future and pre-emptive rights are not waived, holders of the Netcall Shares outside the United Kingdom may not be able to exercise their pre-emptive rights for Netcall Shares unless the Company decides to comply with applicable local laws and regulations. There can be no assurance that Netcall will be able to comply with applicable local laws and regulations to enable its non-UK Shareholders to exercise their pre-emptive rights, nor can there be any assurance that steps can or will be taken to permit Netcall Shareholders outside the UK to receive any proceeds resulting from the sale of those rights or other amounts relating thereto.

2.4 Share price effect of sales of ordinary shares

The market price of Netcall Shares could decline significantly as a result of any sales of Netcall Shares by certain shareholders (who, immediately following the expiry of the relevant lock-in period, will hold approximately 14 per cent. of the Enlarged Group), or the expectation or belief that sales of such shares may occur. Details of the lock-in arrangements for these shareholders are set out in paragraph 10 of Part I of this document.

2.5 Interests of major shareholders

On Admission of the New Netcall Shares, certain shareholders, whose names are set out in paragraph 7.4 of Part VII, will each hold more than three per cent. of the Enlarged Share Capital. Collectively, these shareholders may be able to exercise significant influence over the Enlarged Group and the Enlarged Group's operations, business strategy and those corporate actions that require the approval of the shareholders.

Part III

HISTORICAL FINANCIAL INFORMATION ON NETCALL

Incorporation of relevant information by reference

The information listed below relating to the Netcall Group is hereby incorporated by reference into this document.

No.	Information	Source of Information
1.	Audited financial statements for the latest 3 financial years and the audit report in respect of each year, including dividend per share for each financial year	***Netcall annual report for the year ended 30 June 2009*** If you are reading this document in hard copy, please enter the below web address in your web browser to be brought to the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the relevant document. http://www.netcall.com/pdf/annualreport_2009.pdf ***Netcall annual report for the year ended 30 June 2008*** If you are reading this document in hard copy, please enter the below web address in your web browser to be brought to the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the relevant document. http://www.netcall.com/pdf/annualreport_2008.pdf ***Netcall annual report for the year ended 30 June 2007*** If you are reading this document in hard copy, please enter the below web address in your web browser to be brought to the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the relevant document. http://www.netcall.com/pdf/annualreport_2007.pdf
2.	Unaudited interim financial information covering at least the first six months of the financial year with comparative statements for the same period in the prior year	***Netcall unaudited results for the six months ended 31 December 2009*** If you are reading this document in hard copy, please enter the below web address in your web browser to be brought to the relevant document. If you are reading this document in soft copy, please click on the web address below to be brought to the relevant document. http://www.netcall.com/pdf/Netcall%20Interim%20Results%20H110%20Final.pdf

Netcall will send within two Business Days, without charge, to each person to whom a copy of this document has been sent, on their request, a copy of any documents incorporated by reference in Part III of this document. Requests should be addressed to Netcall at 10 Harding Way, St Ives, Cambridgeshire PE27 3WR.

Part IV

HISTORICAL FINANCIAL INFORMATION ON TELEPHONETICS

Telephonetics plc – Audited Financial Information for the year ended 30 November 2009

Remuneration Report

Remuneration Committee

The Remuneration Committee was constituted on 20 June 2005 and comprises the non-executive directors, being M. P. Neville and M. C. Brooks at the time of this report. It is chaired by M. P. Neville.

The Remuneration Committee formally met twice during the year. Except when matters concerning their own positions are being considered, the Chief Executive and the Finance Director are invited to assist the Remuneration Committee. The Company Secretary is secretary of the Remuneration Committee.

Remuneration policy

The Remuneration Committee reviews remuneration of Executive Directors and senior management each year. The main aim of the Company's executive pay policy is to secure the skills and experience the Group needs to meet its objectives and satisfy shareholder expectations. Each review is set in the context of Group needs, individual responsibilities, performance, and market practice. It also has regard to the approach to remuneration across the Group as a whole.

Executive Directors' and senior management's remuneration is designed to be competitive in the market place and to have a significant performance-related element.

Directors' remuneration

The main components of remuneration comprise:

Basic salary and benefits

The Group's policy for the current and subsequent financial years is that Executive Directors' basic salaries should be maintained at competitive levels for comparable positions. Benefits-in-kind consist of private car allowances or provision of a company car and private medical and health insurance.

Performance related bonuses

The Executive Directors participate in an annual bonus scheme linked to the achievement of financial and individual performance targets set by the Remuneration Committee for each financial year. The bonus scheme is structured so as to pay 50% of salary for achieving targets. Bonuses payable are subject to the discretion of the Remuneration Committee after taking into account an overall view of the Group's performance and its assessment of strategic and personal performance.

In respect of the year under review, W. B. Burgar, A. P. McKay and J. A. Ormondroyd received an award of £54,000, £54,000 and £54,000 representing 42%, 42% and 42% of basic salary paid in the period.

The Board also awarded J. A. Ormondroyd an additional discretionary bonus of £100,000 in recognition of his significantly increased responsibilities within the business including management of the sales and solutions architect functions.

Executive Directors service agreements

Each of the Executive Directors has a service agreement with the Company. These are rolling agreements which can be terminated by either party giving to the other no fewer than 12 months' notice in writing at any time. If the Company terminates the contract by notice but other than on giving full notice, the service agreements provide for the payment of a fixed amount equal to salary and other contractual benefits for the unexpired portion of the duration of the appointment or entitlement to notice, as the case may be.

Non-Executive Directors

The remuneration of the Non-Executive Chairman and Non-Executive Director is determined by the Board on the recommendation of the Chief Executive on an annual basis and takes into account market rates.

M. P. Neville has a 12 month rolling appointment as Non-Executive Chairman and received a basic fee of £48,000 per annum. M. C. Brooks has a 12 month rolling appointment as Non-Executive Director and received a basic fee of £24,000 per annum. The terms of their engagement are set out in a letter of appointment, which details their duties and responsibilities and confirms their remuneration.

The Board awarded M. P. Neville and M. C. Brooks a discretionary bonus of £12,000 and £13,000 respectively in recognition of the additional time spent assisting the Board during the period.

M. C. Brooks is a partner of the partnership trading as Slikware which during the current year provided consultancy services to the Company in relation to the ongoing operations of the Company's newly acquired subsidiary Datadialogs Ltd. Charges amounting to £105,000 for consultancy services were paid to Slikware in the period.

Audited information

The tables disclosing directors' remuneration and other benefits and pension contributions below represent the only audited information within the remuneration report.

Directors' remuneration

The total amounts of Directors' remuneration and other benefits are shown below:

Name	*Salary and fees £'000*	*Bonus £'000*	*Short-term benefits in kind £'000*	*Consultancy charges £'000*	*2009 Total £'000*	*2008 Total £'000*
M. C. Brooks	24	13	—	105	142	19
W. B. Burgar	128	54	15	—	197	185
A. P. McKay	128	54	15	—	197	176
M. P. Neville	48	12	—	—	60	51
J. A. Ormondroyd	128	154	15	—	297	185
Totals	456	287	45	105	893	616

Pensions

The table below sets out the contributions by the Company to directors' personal pension schemes during the year:

Name	*30 November 2009 £'000*	*30 November 2008* £'000
W. B. Burgar	24	22
A. P. McKay	24	22
J. A. Ormondroyd	24	22

Options granted to directors

The share options, over ordinary shares in the Company, held by each director at 30 November 2009 are as follows:

Name	*Note*	*At 30 November 2009 (Number)*	*Granted in year (Number)*	*Lapsed in year (Number)*	*At 1 December 2008 (Number)*	*Exercise Price (Pence)*	*Grant date*	*Latest date of exercise*
M. P. Neville	1	654,514	—	—	654,514	1.0	07.07.05	06.07.15
J. A. Ormondroyd	2	12,275	—	—	12,275	36.0	07.07.05	06.07.15
	3	305,555	—	—	305,555	22.0	07.07.05	06.07.15
	3	305,555	—	—	305,555	18.0	07.07.05	06.07.15
	4	—	—	1,062,000	1,062,000	1.0	03.04.07	n/a

(1) Granted as an unapproved share option in 2005. These options vest in four equal instalments every six months from the date of grant.

(2) Granted under the 2005 Telephonetics Plc Enterprise Management Incentive Scheme.

(3) Granted as an unapproved share option in 2005. The option vested in two tranches of 305,555 shares on 7 July 2006 and 6 January 2007. The option price was determined by the Remuneration Committee based on the results for the year.

(4) Granted under the 2007 Telephonetics Plc Enterprise Management Incentive Scheme.

At 30 November 2009, the closing middle market price of a share was 7.0 pence. During the financial year the share price reached a high of 9.23 pence and a low of 6.0 pence.

Directors' Interests in Shares

The interests, all of which are beneficial, of the directors (and their immediate families) in the share capital of the Company, as shown in the register kept by the Company, are set out below:

Name	*30 November 2009*	*30 November 2008*
M. C. Brooks[(1)]	12,909,843	12,909,843
W. B. Burgar	20,138,889	20,138,889
A. P. McKay	20,288,889	20,288,889
M. P. Neville	150,000	150,000

(1) On 27 August 2008 M. C. Brooks transferred 1,970,588 ordinary shares of 1p each to his pension fund, Crescent Trustees Ltd.

There have been no changes in the above shareholdings between 30 November 2009 and 24 February 2010.

On 7 April 2006 the Company announced that A. P. McKay and W. B. Burgar each granted to Cineworld Cinemas Ltd options of up to 657,895 over their own private ordinary shareholding. These options vest in equal instalments over a six year term from 5 September 2006, and at an exercise price of 10% of the closing mid-market price of the shares on the business day preceding the exercise of each option. As at 24 February 2010, no such options had been exercised.

By order of the Remuneration Committee

M. P. Neville
Non-Executive Chairman

24 February 2010

Report of the independent Auditors

To the shareholders of Telephonetics Plc

We have audited the financial statements of Telephonetics Plc for the year ended 30 November 2009 which comprise the Consolidated Income Statement, Consolidated Statement of Changes in Equity, Consolidated Balance Sheet, Consolidated Cash Flow Statement, the related notes, the Company Balance Sheet, related notes and the information included within the audited financial information section of the Directors Remuneration Report. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 30 November 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company's financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the directors' report for the financial year 2009 for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Viner
(senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

24 February 2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated income statement for the year ended 30 November 2009

	Note	*2009* *£'000*	*2008* *£'000*
Revenue	4	10,510	9,951
Cost of sales		(4,081)	(3,865)
Gross profit		6,429	6,086
Operating expenses	5	(5,997)	(5,220)
Profit from operations	6	432	866
Profit from operations analysed as:			
Profit from operations before restructuring credit		432	786
Restructuring credit	5	—	80
		432	866
Finance expense	8	(44)	(3)
Finance income	9	25	208
Profit before tax		413	1,071
Tax expense	10	(58)	(120)
Profit for the year		355	951
Earnings per share			
Basic – pence	11	0.33	0.87
Diluted – pence	11	0.31	0.80

The notes on pages 10 to 31 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 30 November 2009

	Share capital £'000	*Share premium £'000*	*Shares to be issued £'000*	*Reverse acquisition Reserve £'000*	*Merger reserve £'000*	*Retained earnings £'000*	*Total £'000*
Balance at 1 December 2007	1,090	6,802	—	506	4,951	46	13,395
Profit for the year	—	—	—	—	—	951	951
Total recognised income and expense	—	—	—	—	—	951	951
Share-based payment credit (note 25)	—	—	—	—	—	23	23
Issue of share capital	—	1	—	—	—	—	1
Balance at 30 November 2008 (note 23)	1,090	6,803	—	506	4,951	1,020	14,370
Balance at 1 December 2008	1,090	6,803	—	506	4,951	1,020	14,370
Profit for the year	—	—	—	—	—	355	355
Total recognised income and expense	—	—	—	—	—	355	355
Shares to issued (note 26)	—	—	266	—	—	—	266
Share-based payment credit (note 25)	—	—	—	—	—	38	38
Issue of share capital (note 22)	1	1	—	—	—	—	2
Balance at 30 November 2009 (note 23)	1,091	6,804	266	506	4,951	1,413	15,031

Consolidated balance sheet as at 30 November 2009

	Note	*2009* *£'000*	*2008* *£'000*
Assets			
Non-current assets			
Property, plant & equipment	12	232	269
Intangible assets	13	12,807	11,093
Deferred tax assets	21	—	33
Total non-current assets		13,039	11,395
Current assets			
Inventories	15	161	335
Trade & other receivables	16	2,152	2,536
Cash & cash equivalents	17	5,114	5,389
Total current assets		7,427	8,260
Total assets		20,466	19,655
Liabilities			
Current liabilities			
Trade & other payables	18	4,754	5,149
Borrowings	19	13	—
Corporation tax	88	88	
Provisions	20	202	6
Total current liabilities		5,057	5,236
Non-current liabilities			
Provisions	20	304	49
Deferred tax	21	74	—
Total non-current liabilities		378	49
Total liabilities		5,435	5,285
Net assets		15,031	14,370
Capital & reserves			
Share capital	22	1,091	1,090
Share premium	23	6,804	6,803
Shares to be issued	23	266	—
Reverse acquisition reserve	23	506	506
Merger reserve	23	4,951	4,951
Retained earnings	23	1,413	1,020
Total equity		15,031	14,370

The financial statements were approved by the Board of Directors and authorised for issue on 24 February 2010.

M. P. Neville	**J. A. Ormondroyd**
Non-Executive Chairman	Finance Director

The notes on pages 10 to 31 form part of these financial statements.

Consolidated cash flow statement for the year ended 30 November 2009

	Note	2009 £'000	2008 £'000
Cash flow from operating activities			
Profit for the year		355	951
Adjustments for:			
Depreciation	12	138	149
Loss on disposal of property, plant and equipment	12	—	18
Amortisation	13	391	188
Finance income	9	(25)	(208)
Finance expense	8	44	3
Share-based payment expense	25	38	23
Income tax expense	10	58	120
Operating cash flows before movements in working capital & provisions		999	1,244
Decrease/(increase) in inventories		174	(86)
Decrease/(increase) in trade and other receivables		559	(291)
(Decrease)/increase in trade and other payables		(670)	827
Increase/(decrease) in provisions		10	(130)
Cash generated from operations		1,072	1,564
Interest paid		(5)	(3)
Interest received		25	208
Corporation tax (reclaimed)/paid		(85)	34
Net cash flow from operating activities		1,007	1,803
Investing activities			
Purchase of plant, property & equipment	12	(88)	(114)
Development expenditure	13	(283)	(216)
Purchase of other intangible assets	13	(83)	(113)
Acquisition of subsidiary, net of cash acquired	26	(813)	—
Net cash used in investing activities		(1,267)	(443)
Financing activities			
Repayment of bank loans	19	(13)	—
Repayment of finance leases	19	(3)	—
Issue of ordinary shares	22	1	1
Net cash (used in)/from financing activities		(15)	1
Net (decrease)/increase in cash & cash equivalents		(275)	1,361
Cash & cash equivalents at the beginning of the year	17	5,389	4,028
Cash & cash equivalents at end of the year	17	5,114	5,389

The notes on pages 10 to 31 form part of these financial statements.

Notes to the consolidated financial statements for the year ended 30 November 2009

1 Accounting policies

Basis of preparation

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

The accounting policies have been applied consistently throughout the Group for the purpose of preparation of these financial statements.

IFRS 8 Operating Segments has been adopted early in these financial statements, as the Board considers the presentation of segmental information to better reflect the information that is reviewed by management.

The following new Standards and Interpretations, which are yet to become mandatory, have not been applied in the consolidated financial statements:

- Amendment to IAS 23 Borrowing Costs
- Amendment to IFRS 2 Share-based Payment: Vesting Conditions and Cancellations
- Amendments to IAS 1 Presentation of Financial Statements: A Revised Presentation
- Amendments to IAS 27 Consolidated and Separate Financial Statements
- Amendments to IAS 32 and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IFRS 1 and IAS 27 Cost of an Investment in a subsidiary, jointly-controlled entity or associate
- Amendments IFRS 7 Improving Disclosures About Financial Instruments
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- Improvements to IFRSs (2009)
- Revised IFRS 3 Business Combinations
- Amendments to IFRIC 9 and IAS 39 Embedded Derivatives
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 17 Distributions of Non-cash Assets to Owners
- IFRIC 18 Transfers of Assets from Customers
- Improvements to IFRSs (2010)
- Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
- Amendments to IAS 32 Classification of Rights Issues
- Revised IAS 24 Related Party Disclosures
- IFRS 9 Financial Instruments

Based on the Group's current business model and accounting policies, the Board does not expect material impacts on the consolidated financial statements when the Standards and Interpretations become effective: except the amendment to IAS 1 that will impact on the presentation of the financial statements; and revised IFRS 3 which will apply to future acquisitions and has a requirement to write off all acquisition costs to profit or loss instead of including them in the cost of investment and the requirement to recognise an intangible asset even if it cannot be reliably measured. The revised IFRS 3 does not require the restatement of previous business combinations. The Group does not intend to apply any of these pronouncements early.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of consolidation

The Group financial statements consolidated the financial statements of Telephonetics Plc and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the consideration paid over the fair values of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

On 7 July 2005, Telephonetics VIP Ltd acquired Telephonetics Plc (then named Leptis Magna Plc) via the reverse acquisition method. It would normally be necessary for the Group's consolidated accounts to follow the legal form of the business combination. In that case the pre-combination results would be included within the Group from 7 July 2005. However, this would portray the combination as an acquisition of Telephonetics VIP Ltd by Telephonetics Plc, a cash shell at that time, and would, in the opinion of the Directors, fail to accurately portray the substance of the business combination. As a result the Directors adopted reverse acquisition accounting as the basis of consolidation for the acquisition of Telephonetics VIP Ltd.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of consideration paid over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is recognised as an asset at cost and reviewed for impairment at least annually. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Value in use is determined by reference to the Group's anticipated future cash flows discounted to present value. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

The Group provides hosted and customer installed automated speech recognition and computer telephony solutions. Revenue in respect of:

- hosted telephony call and transaction revenues are recognised when the call or transaction has been delivered over the Group's network;
- goods and professional services are recognised when the good or services has been delivered to the customer; and
- maintenance and subscription service contracts are recognised evenly over the period in which the service is provided to the customer. Maintenance and subscription service contracts can be greater than one year.

Leased assets

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Taxation

The tax expense or credit represents the sum of the tax currently payable or receivable and deferred tax. The tax currently payable or receivable is based on taxable profit for the year.

Taxable profit differs from net profits as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability or receivable for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arose from goodwill or from the initial recognition (other than in a business combination) of other asset and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant & equipment

Property, plant and equipment are stated at their purchase price, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost of property, plant and equipment less the estimated residual value, on a straight line basis, over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

- Fixtures and fittings 20%-33% per annum
- Computer equipment 14%-33% per annum

Intangible assets

Intangible assets that meet the recognition criteria of IAS 38 'Intangible Assets' are carried at cost less amortisation and any impairment losses. Intangible assets comprise of internally generated development expenditure arising in the normal course of business and acquired software and acquired customer relationships.

Internally-generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Any internally-generated intangible asset arising from the Group's development projects are recognised only if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset
- How the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Externally acquired intangible assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised on a straight-line basis over their useful economic lives. The amortisation expense is included within the appropriate expenses line in the consolidated income statement.

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

Amortisation – externally acquired intangible assets

Acquired intangible assets are amortised over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

- Customer relationships acquired with Datadialogs 25% per annum
- Software acquired with Datadialogs 20% per annum
- Software licenses 14%-33% per annum

Amortisation – internally-generated intangible assets

Internally-generated intangible assets (development costs) and separately acquired software licenses are amortised on a straight-line basis over their useful lives, typically three years. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Charges are recognised in the operating expense line on the face of the income statement.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. An impairment loss or their subsequent reversal is recognised as an expense immediately.

Impairment charges and reversals are recognised in the operating expense line on the face of the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of goods for resale is calculated on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets

The group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The company has not classified any of its financial assets as at fair value through profit or loss, held to maturity or available for sale.

The company's accounting policy for loans and receivables is as follows:

Loans and receivables:

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

Financial liabilities

All of the Group's financial liabilities are classified as other financial liabilities. The Company's accounting policy for other financial liabilities is as follows:

Other financial liabilities:

Other financial liabilities include the trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Equity instruments

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties. Where a leased property ceases to be used for the Group's business a provision is made for the residual lease commitments to the first break clause, together with outgoings, after taking into account estimated possible sub-let income.

A dilapidation provision for the estimated cost of restoring the Group's leased property at lease terms to the condition they were originally leased is charged to the income statement over the life of the lease.

Share-based payments

The Group issues equity-settled share based payments to certain employees and Directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and is only adjusted for the failure to meet non-market conditions.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Pensions

Contributions to the Group's defined contribution pension scheme and employee's personal pension plans are charged to the income statement in the year in which they become payable.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the income statement.

2 Critical accounting estimates and judgements

Critical judgements in applying the Group's accounting policies

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Capitalisation of internal development costs

In order to comply with the Group's accounting policy relating to internally generated intangible assets (development expenditure), the Directors are required to assess the fair value of the costs incurred on the Group's development projects that are allowed to be capitalised. These costs are principally salary related, representing the costs of the employees conducting the development. In order to measure the costs that should be capitalised, the Directors calculate a standard hourly rate for development employees and apply this rate to time recorded on timesheets which have been allocated to qualifying development projects. The total value of internal costs capitalised as intangible assets related to research and development during the year is £283,000 (2008 – £216,000).

3 Financial Instruments – Risk Management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Group is exposed through its operations to credit risk, market risk and liquidity risk.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash at bank and trade and other payables. The Group has no significant debt, significant net foreign currency monetary assets or liabilities nor any significant hedged transactions or positions.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counter party to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy to assess the credit risk of new customers before entering contracts. The sales ledger is reviewed weekly to ensure all receivables are recoverable. Refer to note 16 for further details on trade receivables, including analyses of bad debts, ageing and profile by currency.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. At the year end the Group's cash at bank was held with Lloyds TSB Group Plc. Given the recent "credit crunch" the Group has placed a proportion of its cash at bank with Barclays Plc.

Market Risk

Market risk arises from the Group's use of interest-bearing and foreign currency financial instruments. It is the risk that the future cash-flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

The Group manages its cash held on deposit to gain reasonable interest rates. The average interest rate gained on cash held during the year was 0.6%. A 1% movement in interest rates would impact upon net assets and net profit by approximately £33,000.

The Group conducts some trade in euros and therefore holds a small amount of cash and receivables in euros. The Group does not consider this to be a material risk and therefore does not hedge against movements in foreign currency. A 10% movement in the exchange rate between sterling and the euro would not have a material effect on the net assets or net profit of the Group.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Board review an annual 12-month cash flow projection as well as information regarding cash balances on a monthly basis. At the balance sheet date, liquidity risk was considered to be low given the fact the Group is cash generative, has no borrowings and cash and cash equivalents are thought to be at acceptable levels.

The Group does not have any committed facilities.

Capital Disclosures

The capital structure of the Group comprises issued share capital, reserves and retained earnings as disclosed in notes 22 and 23. The Group finances its operations through cash generated by the business and through the historic issue of shares. The Group does not have any debt financing (save for a small loan acquired with Datadialogs of £13,000) whilst the Board has not ruled out debt financing it is not currently under active consideration.

4 Segmental analysis

The following is an analysis of the Group's revenue and results by operating segment for the periods under review:

	2009 Revenue £'000	*2008 Revenue £'000*	*2009 Segment EBITDA £'000*	*2008 Segment EBITDA £'000*
Telephonetics	9,960	9,951	2,442	2,110
Datadialogs	550	—	(245)	—
	10,510	9,951	2,197	2,110
Central administration			(1,198)	(964)
Adjusted EBITDA			999	1,146
Depreciation			(138)	(149)
Amortisation of intangible assets			(391)	(188)
Share-based payment charges			(38)	(23)
Restructuring credit			—	80
Net interest			(19)	205
Profit before tax			413	1,071

All of the segment revenue reported above is from external customers. Segment EBITDA represents the profit before interest, taxation, depreciation, amortisation, one-off restructuring and share-based charges earned by each segment without allocation of central administration costs (representing the cost of directors' remuneration, allocated overhead and fees incurred in respect of the Company's AIM quoted status). The Telephonetics segment is our hosted and premises-based speech recognition and voice automation solutions division. The Datadialogs segment is our newly acquired business solutions division. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The Group has two major customers (a major customer being one that generates revenues amounting to 10% or more of total revenue) that accounted for £1.81m (2008 – £2.04m) and £1.39m (2008 – £1.17m) of the Telephonetics segment revenues respectively in the period.

The Telephonetics segment comprises hosted revenues of £3.30m (2008 – £3.61m) and premises-based revenues of £6.66m (2008 – £6.34m).

The following is an analysis of the Group's assets by operating segment:

	2009 £'000	*2008 £'000*
Total assets		
Telephonetics	16,441	16,728
Datadialogs	1,778	—
Head office	3,118	3,458
Inter-segment eliminations	(871)	(531)
	20,466	19,655
Total liabilities		
Telephonetics	4,753	5,192
Datadialogs	1,038	—
Head office	515	624
Inter-segment eliminations	(871)	(531)
	5,435	5,285
	15,031	14,370

Segmental assets and liabilities include items directly attributable to a segment and include any goodwill and provision for contingent consideration balances associated with that segment. Head office represents the operations of the parent holding company its assets and liabilities are principally cash, inter-company financing and central administration working capital balances.

The Group's operation is based in the UK and all sales originate in the UK.

5 Operating expenses

	2009 *£'000*	*2008* *£'000*
Operating expenses are analysed as:		
Research and development	807	610
Sales and marketing	3,209	3,026
Analysed as:		
Sales and marketing before amortisation of acquired customer lists	3,148	3,026
Amortisation of acquired customer lists	61	—
	3,209	3,026
General and administration	1,981	1,584
Analysed as:		
General and administration before share-based payment expense and restructuring credit	1,943	1,641
Share-based payment expense	38	23
Restructuring credit[(1)]	—	(80)
	1,981	1,584
	5,997	5,220

(1) In May 2008 the Group reorganised its leasehold property and terminated various leases earlier than expected, as a result £80,000 of the vacant property provision was surplus and has been credited back to the income statement in the period ended 31 May 2008.

6 Profit from operations

This is arrived at after charging:

	2009 *£'000*	*2008* *£'000*
Depreciation of property, plant and equipment	138	149
Amortisation of intangible assets	255	188
Research and development costs	807	610
Operating lease expense:		
– Plant and machinery	—	17
– Property	154	145
Write down of inventory to net realisable value	18	29
Loss on disposal of property, plant and equipment	—	18

Auditors' remunerations is analysed as follows:

	2009 £'000	2008 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	30	33
Fees payable to the Company's auditors for other service to the Group:		
– The audit of the Company's subsidiaries pursuant to legislation	33	29
Total audit fees	63	62
Other services:		
– pursuant to IFRS legislation	—	14
– taxation advice	4	—
Total non-audit fees	4	14

7 Staff costs

The average number of employees (including directors) during the year was as follows:

	2009 Number	2008 Number
Operations	33	26
Research and development	19	12
Sales and marketing	40	36
General and administration	19	17
	111	91

	2009 £'000	2008 £'000
Their aggregate remuneration comprised:		
Wages and salaries	5,100	4,352
Employer's national insurance contributions and similar taxes	597	495
Defined contribution pension costs	256	246
Other staff related expenses	228	222
Share-based payment credit	—	(41)
	6,181	5,274

Included within the above costs are staff costs capitalised as development expenditure, which totalled £283,000 (2008 – £216,000).

Key management personnel and Directors' remuneration

The Board considers the Directors to be the key management personnel. Details of individual directors remuneration is set out within the audited financial information section of the Remuneration report which is comprised of the remuneration and pension tables on page 2. In addition, employer's national insurance contributions incurred relating to directors was £91,000 (2008 – £86,000) and share-based payment charges was a credit of £NIL (2008 – £7,000). The overall total of key management personnel compensation, including directors' remuneration, consulting fees, pensions, share-based payments and employer's national insurance contributions is £1,064,000 (2008 – £761,000).

8 Finance expenses

	2009 £'000	2008 £'000
Bank charges	5	3
Implicit interest on contingent consideration	39	—
	44	3

9 Finance income

	2009 £'000	2008 £'000
Interest on bank deposits	25	208

10 Tax

	2009 £'000	2008 £'000
Current income tax:		
Current year	93	80
Deferred tax (note 21):		
Original and reversal of temporary differences	(35)	27
Adjustment to prior period	—	13
Total deferred tax	(35)	40
Total tax charge in income statement	58	120

UK Corporation tax is calculated at 28% (2008 – 28%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2009 £'000	2008 £'000
Profit before tax	413	1,071
Tax at the UK corporation tax rate of 28% (2008 – 28%)	116	300
Tax effects of:		
Implicit interest on contingent consideration	11	—
Share option expenses	11	18
Deduction for share options exercised	(2)	(1)
Utilisation of brought forward losses	—	(143)
Marginal rate relief	(4)	(14)
Research and development tax credit	(63)	(46)
Deferred research and development expenses	—	(1)
Decelerated capital allowances	(1)	—
Disallowed expenses	5	7
Datadialogs Ltd pre-acquisition losses	(15)	—
Tax expense for the year	58	120

11 Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue is 109,055,179 (2008 – 109,010,585) and the earnings used is profit after tax being £355,000 (2008 – £951,000).

	2009 Number	*2008 Number*
Reconciliation of denominator:		
Weighted average number of shares used for the calculation of basic earnings per share	109,055,179	109,010,585
Effect of dilutive potential ordinary shares		
Exercise of share options	4,424,332	9,741,928
Weighted average number of shares used for the calculation of diluted earnings per share	113,479,511	118,752,513

Certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (i.e. they are out-of-the money) and therefore it would not be advantageous for the holders to exercise those options.

The total number of options in issue is disclosed in the note 25.

12 Property, plant and equipment

	Fixtures and fittings £'000	*Computer equipment £'000*	*Total £'000*
Cost			
At 1 December 2007	400	807	1,207
Additions	48	66	114
Disposals	(18)	(23)	(41)
At 30 November 2008	430	850	1,280
At 1 December 2008	430	850	1,280
Additions	16	72	88
Acquisition of Datadialogs (note 26)	1	12	13
Transfers to current assets	—	(7)	(7)
At 30 November 2009	447	927	1,374
Accumulated Depreciation			
At 1 December 2007	345	540	885
Charge for the year	30	119	149
Disposals	(5)	(18)	(23)
At 30 November 2008	370	641	1,011
At 1 December 2008	370	641	1,011
Charge for the year	23	115	138
Transfer to current assets	—	(7)	(7)
At 30 November 2009	393	749	1,142
Net book value			
At 30 November 2007	55	267	322
At 30 November 2008	60	209	269
At 30 November 2009	54	178	232

13 Intangible assets

	Goodwill £'000	Customer list[(1)] £'000	Software[(2)] £'000	Development costs £'000	Licenses £'000	Total £'000
Cost						
At 1 December 2007	13,036	—	—	212	554	13,802
Additions	—	—	—	216	113	329
At 30 November 2008	13,036	—	—	428	667	14,131
At 1 December 2008	13,036	—	—	428	667	14,131
Additions	999	294	446	283	83	2,105
At 30 November 2009	14,035	294	446	711	750	16,236
Accumulated impairment losses and amortisation						
At 1 December 2007	2,501	—	—	59	290	2,850
Provided for year	—	—	—	76	112	188
At 30 November 2008	2,501	—	—	135	402	3,038
At 1 December 2008	2,501	—	—	135	402	3,038
Provided for year	—	61	75	136	119	391
At 30 November 2009	2,501	61	75	271	521	3,429
Carrying amount						
At 30 November 2007	10,535	—	—	153	264	10,952
At 30 November 2008	10,535	—	—	293	265	11,093
At 30 November 2009	11,534	233	371	440	229	12,807

(1) the remaining amortisation period for the acquired customer list intangible asset is 26 months.
(2) the remaining amortisation period for the acquired software intangible asset is 38 months.

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The cost and carrying value of goodwill has been allocated to three CGUs at 30 November as follows:

	Cost 2009 £'000	Cost 2008 £'000	Carrying value 2009 £'000	Carrying value 2008 £'000
Telephonetics Plc	2,043	2,043	—	—
Telephonetics VIP Ltd	10,993	10,993	10,535	10,535
Datadialogs Ltd	999	—	999	—
	14,035	13,036	11,534	10,535

Telephonetics Plc

Goodwill of £2,043,000 arising on the reverse acquisition of Telephonetics Plc was impaired in the year ended 30 November 2005 as Telephonetics Plc had no continuing business and therefore the goodwill had no intrinsic value.

Telephonetics VIP Ltd

Goodwill of £10,993,000 arose on the acquisition of Voice Integrated Products Ltd in July 2006, the trade of which was subsequently hived into Telephonetics VIP Ltd in September 2006. The recoverable amount of goodwill relating to Telephonetics VIP Ltd was determined from value in use calculations. The key assumptions for the value in use calculations are discount rate, growth rate and expected changes to direct costs. The Group prepared a five year cash flow forecast derived from the most recent financial budgets and plans approved by the Board and extrapolated this beyond five years based on an estimated growth rate of zero per cent.

The pre-tax adjusted discount rate used in the testing at 30 November 2009 was 10% which management estimate reflects the current market assessment of the time value of money and the risks specific to the CGU. The growth rate is based on past experience adjusting for industry growth factors and includes assumptions regarding a further decline in MovieLINE® revenues and a return from the continuing investment in marketing of the Group's packaged applications into the public sector. Changes in direct costs are based on past practices and expectations of future changes in the market.

Datadialogs Ltd

Goodwill of £999,000 arose on the acquisition of Datadialogs Ltd in February 2009. The recoverable amount of goodwill relating to Datadialogs Ltd was determined from value in use calculations. The key assumptions for the value in use calculations are discount rate, growth rate and expected changes to direct costs. The Group prepared a five year cash flow forecast derived from the most recent financial budgets and plans approved by the Board and extrapolated this beyond five years based on an estimated growth rate of zero per cent.

The pre-tax adjusted discount rate used in the testing at 30 November 2009 was 10% which management estimate reflects the current market assessment of the time value of money and the risks specific to the CGU. The growth rate is based on the expected return from the continuing investment in sales and marketing of its Eden application and professional services. Changes in direct costs are based on this investment plan and expectations of future changes in the market.

14 Subsidiaries

The principal subsidiaries of Telephonetics Plc, all of which have been included in these consolidated financial statements, are as follows:

		Proportion of ownership interest at 30 November	
Name	*Country of incorporation*	*2009*	*2008*
Telephonetics VIP Ltd	Great Britain	100%	100%
Datadialogs Ltd	Great Britain	100%	100%
Voice Integrated Products Ltd	Great Britain	100%	100%

15 Inventories

	2009	*2008*
	£'000	*£'000*
Finished goods and goods for resale	161	335

16 Trade and other receivables

	2009	*2008*
	£'000	*£'000*
Trade receivables	1,246	1,948
Less: provision for impairment of trade receivables	(22)	(39)
Trade receivables – net	1,224	1,909
Other receivables	33	42
Prepayments	299	230
Accrued income	596	355
Total trade and other receivables	2,152	2,536

Trade receivables net of allowances are held in the following currencies:

Euro	14	23
Sterling	1,210	1,886
	1,224	1,909

Included in the Group's trade receivables are debtors with a carrying amount of £145,000 (2008 – £277,000) which are past due at the reporting date. The Group does not hold collateral over these balances. The ageing of past due receivables is as follows:

	Impaired 2009 £'000	*Impaired 2008 £'000*	*Not Impaired 2009 £'000*	*Not Impaired 2008 £'000*
31-60 days	1	—	23	120
61-90 days	3	11	3	122
Over 90 days	18	25	119	35
	22	36	145	277

Movement in the allowance for doubtful debts:

	2009 £'000	*2008 £'000*
Balance at the beginning of the period	39	28
Acquired	25	—
Provided during the year	26	78
Unused amounts reversed during the year	(29)	(64)
Written off during the year	(39)	(3)
Balance at the end of the period	22	39

In determining the recoverability of a trade receivable the Group considers changes in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. On the basis that the customers of the Group consist of blue chip companies and public sector organisations the credit quality of the trade receivables is considered to be good.

Financial assets classified as loans and receivables:

	Fair value 2009 £'000	*Fair value 2008 £'000*
Trade receivables	1,224	1,909
Accrued income	596 3	55
Cash and cash equivalents (note 17)	5,114	5,389
	6,934	7,653

The Directors consider the carrying value of financial assets is not materially different to fair value. The Group does not hold collateral over these financial assets.

17 Cash and cash equivalents

Cash and cash equivalents are held in the following currencies:

	2009 *£'000*	*2008* *£'000*
Sterling	5,056	5,278
Euro	58	111
	5,114	5,389

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

18 Trade and other payables – current

	2009 *£'000*	*2008* *£'000*
Trade payables	664	844
Other tax and social security taxes	425	453
Pension	20	19
Other payables	36	58
Accruals	1,013	1,101
Deferred income	2,596	2,674
Total trade and other payables – current	4,754	5,149

Financial liabilities measured at amortised cost:

	Fair value *2009* *£'000*	*Fair value* *2008* *£'000*
Trade payables	664	844
Accruals	1,013	1,101
Borrowings	13	—
	1,690	1,945

The directors consider the carrying value of financial liabilities is not materially different to fair value. Financial liabilities comprise expenses incurred in the ordinary course of business and are settled as they fall due usually within one to three months.

19 Borrowings

	Finance Leases *£'000*	*Bank loan* *£'000*	*Total* *£'000*
As at 1 December 2008	—	—	—
Acquired	3	26	29
Repaid in year	(3)	(13)	(16)
As at 30 November 2009	—	13	13

Both the finance leases and bank loan were acquired as part of the acquisition of Datadialogs Ltd during the year (note 26). The acquired balance of the finance leases were repaid in full during the year.

The bank loan represents a government backed loan received by Datadialogs Ltd under the Small Firms Loan Guarantee Scheme and was originally taken out on 1 August 2005 in the amount of £87,500. The loan is being repaid in equal monthly instalments over five years and is due to expire in July 2010. Monthly interest is payable separately at the rate of base + 2.5%.

20 Provisions

	Contingent consideration[(1)] *£'000*	*National insurance on share options*[(2)] *£'000*	*Property provisions*[(3)] *£'000*	*Total £'000*
At 1 December 2008	—	6	49	55
Acquired	—	—	2	2
Arising on acquisition	400	—	—	400
Charged in year	39	—	11	50
Released in year	—	(1)	—	(1)
At 30 November 2009	**439**	**5**	**62**	**506**
Due within one year or less	197	5	—	202
Due after more than one year	242	—	62	304
	439	5	62	506

(1) Contingent consideration on the acquisition of Datadialogs Ltd. See note 26 for details.

(2) The final liability to National Insurance on share options is dependent on factors concerning the market price of the Company's shares at the date of exercise, the number of options that will be exercised and the prevailing rate of National Insurance at the date of exercise.

(3) The 30 November 2009 balance in property provisions reflects the estimated costs of restoring the Group's currently occupied leasehold properties at lease terms, to the condition in which they were originally leased has been established.

21 Deferred tax

Deferred tax is calculated in full on temporary differences on the liability method using a tax rate of 28% (2008 – 28%). The movement on the deferred tax account is as shown below:

	Accelerated capital allowances £'000	*Losses carried forward £'000*	*Intangibles £'000*	*Share based payments £'000*	*Other temporary differences £'000*	*Total £'000*
At 1 December 2007	(34)	—	(40)	106	41	73
Credit/(charge) to income statement	25	—	(42)	(11)	(12)	(40)
At 1 December 2008	(9)	—	(82)	95	29	33
Acquired	—	62	(207)	—	3	(142)
Credit/(charge) to income statement	18	26	(3)	—	(6)	35
At 30 November 2009	9	88	(292)	95	26	(74)

Deferred tax on losses carried forward relate to Datadialogs Ltd being those both acquired and incurred in the current year.

Deferred tax on intangibles represents £123,000 (2008 – £82,000) relating to amounts capitalised as research and development costs allowed to be expensed in full and £104,000 (2008 – £nil) relating to acquired Datadialogs software and £65,000 (2008 – £nil) relating to acquired Datadialogs customer list (note 26).

Other temporary differences principally comprise holiday pay and pension accruals.

22 Share capital

	2009 Number of ordinary shares	2009 Nominal value £'000	2008 Number of ordinary shares	2008 Nominal value £'000
Authorised				
Ordinary shares of 1p each	300,000,000	3,000	300,000,000	3,000
Deferred shares of 1p each	50,000,000	500	50,000,000	500
	350,000,000	3,500	350,000,000	3,500

	Number of Ordinary shares	Nominal value £'000	Number of ordinary shares	Nominal value £'000
Issued and fully paid				
Ordinary shares of 1p each				
At 1 December	109,025,334	1,090	108,972,557	1,090
Employee share options exercised	113,472	1	52,777	—
At 30 November	109,138,806	1,091	109,025,334	1,090

23 Other reserves

	Share premium account £'000	Shares to be issued £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 December 2007	6,802	—	506	4,951	46	12,305
Exercise of options	1	—	—	—	—	1
Profit for the financial year	—	—	—	—	951	951
Credit for share option expenses	—	—	—	—	23	23
At 30 November 2008	6,803	—	506	4,951	1,020	13,280
At 1 December 2008	6,803	—	506	4,951	1,020	13,280
Exercise of options	1	—	—	—	—	1
Profit for the financial year	—	—	—	—	355	355
Credit for share option expenses	—	—	—	—	38	38
Acquisition of Datadialogs Ltd	—	266	—	—	—	266
At 30 November 2009	6,804	266	506	4,951	1,413	13,940

Share premium reserve can be defined as amount subscribed for share capital in excess of nominal value.

Shares to be issued relates to contingent consideration associated with the acquisition of Datadialogs Ltd. See note 26 for details.

The reverse acquisition reserve was created on the reverse acquisition of Telephonetics Plc by Telephonetics VIP Ltd on 7 July 2005. It comprises principally the pre-acquisition reserves of Telephonetics VIP Ltd, elimination of the investment in Telephonetics VIP Ltd, elimination of the net assets of Telephonetics Plc and costs directly attributable to the reverse acquisition.

Merger reserve can be defined as amounts recognised as a result of claiming merger relief following the issue of shares of the Group as consideration for an acquisition.

Retained earnings can be defined as the cumulative net gains and losses recognised in the consolidated income statement.

24 Operating lease arrangements

The minimum lease payments under operating leases recognised as an expense in the year is £154,000 (2008 – £162,000).

At the balance sheet date, the Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2009 *£'000*	*2008* *£'000*
Within one year	122	140
In the second to fifth year inclusive	93	211
	215	351

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average term of 3 years.

25 Share-based payments

Equity settled share-based payments

The Company operates a 2005 Enterprise Management Incentive Scheme ('2005 Scheme'), introduced in July 2005. Under this scheme the Board can grant options over shares in the company to employees of the Group. The 2005 Scheme options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant with a contractual life of 10 years subject to continued employment.

The Company operated a 2007 Enterprise Management Incentive Scheme ('2007 Scheme'), introduced in March 2007. These options had adjusted profit before tax performance targets relating to the years ended 30 November 2007, 2008 and 2009. The targets were not met and the options have now lapsed.

Details of the share options outstanding are as follows:

	2009 *Number ('000)*	*2009* *Weighted average exercise price*	*2008* *Number ('000)*	*2008* *Weighted average exercise price*
Outstanding at 1 December	12,927	3.8p	13,002	3.9p
Lapsed	(6,075)	1.4p	(23)	31.3p
Exercised	(135)	1.5p	(53)	1.6p
Outstanding at 30 November	6,717	6.1p	12,926	3.8p
Exercisable at 30 November	6,717	6.1p	6,781	5.8p

The weighted average share price (at the date of exercise) of options exercised during the year was 9.0p (2008 – 7.1p).

	2009					2008			
Range of Exercise price	Weighted average exercise price	Number of shares ('000)	Weighted average remaining life Expected	Contractual	Weighted average exercise price	Number of shares ('000)	Weighted average remaining life Expected	Contractual
1p-2p	1.5p	5,441	1.9	5.9	1.2p	11,576	3.1	7.6
18-36p	25.9p	1,276	0.3	5.8	26.2p	1,351	0.8	6.8

For the period ending 30 November 2009 the Group has recognised a total expense of £38,000 (2008 – £23,000) related to equity-settled share-based payment transactions.

Options are valued using the Black-Scholes option-pricing model.

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

26 Acquisition of subsidiaries

On 6 February 2009 the Company acquired 100% of the ordinary share capital of Datadialogs Limited (formerly Eden Origin Limited). Datadialogs Limited is a specialist provider of codeless Enterprise Application Integration, Business Process Management and Mashup Solutions.

Analysis of assets and liabilities acquired	*Book value £'000*	*Fair value adjustment £'000*	*Fair value on acquisition £'000*
Non-current assets			
Property, plant & equipment	13	—	13
Intangible assets – customer relationships	—	294	294
Intangible assets – software	—	446	446
Current assets			
Trade & other receivables	175	—	175
Cash & cash equivalents	23	—	23
Current liabilities			
Trade & other payables	(263)	(12)	(275)
Borrowings	(18)	—	(18)
Obligations under finance lease	(3)	—	(3)
Non-current liabilities			
Borrowings	(8)	—	(8)
Provisions	(2)	—	(2)
Deferred tax	—	(142)	(142)
	(83)	586	503
Goodwill on acquisition (note 13)	999		
Consideration paid			1,502
Consideration analysed as:			
Cash			720
Contingent consideration – shares to be issued			266
Contingent consideration – cash			400
Transaction expenses			116
			1,502
Net cash flow on acquisition			
Total purchase consideration			1,502
Less: contingent consideration			(666)
Consideration paid in cash			836
Less: cash & cash equivalents acquired			(23)
			813

Fair value adjustments

On acquisition of Datadialogs, all assets were fair valued and appropriate intangible assets recognised following the principals of IFRS 3. A deferred tax liability relating to these intangible assets was also recognised. Management identified two material intangible assets: (i) software; and (ii) customer relationships.

The software acquired with Datadialogs was valued using the multi-year period excess earnings method. This method measures the present value of the future earnings generated over the life of the intangible asset. The future cash flows associated with the intangible asset are estimated, then contributory charges deducted from these cash flows. Contributory charges recognise the cost of the use of the assets employed to support the generation of revenue streams that relate to the asset being valued. The residual cash-flows are then discounted to present values. Contributory charges are made for working capital, fixed assets, workforce and other intangible assets. The basis of the charge is generally the product of the contributory asset's fair value and the required rate of return on the asset. The resulting cash flows are then discounted using the risk adjusted discount rate to give a net present value of the excess earnings resulting from the asset. The value of this intangible asset at acquisition, after taking account for any tax amortisation benefit, is £446,000. Management believe that this software has a minimum useful economic life of five years and therefore the intangible asset will be amortised over this period.

The customer relationships intangible asset acquired with Datadialogs was valued using the historical cost to recreate method. The historical creation cost considers all the expenditure that has previously been incurred on creating the intangible asset. This represents the current value of the amount spent on the asset over time to bring it to its current state. The value of this intangible asset at acquisition, after taking account for any tax amortisation benefit, is £294,000. Management believe that these customer relationships have a minimum useful economic life of four years and therefore the intangible asset will be amortised over this period.

A £207,000 credit to deferred tax has been made to record the liability arising on these intangible assets together with a £62,000 debit to recognise carried forward tax losses at the point of acquisition.

A £12,000 credit to trade & other payables has been made to record an opening holiday pay accrual in line with the Group's accounting policy together with a related £3,000 debit to deferred tax.

Contingent consideration

The contingent consideration is based on an earn out arrangement: £200,000 in cash is payable on Datadialogs achieving revenues of £700,000 within the first year of acquisition; and up to a further £2.80m is payable in a mixture of cash and shares over the two years post acquisition on the achievement of revenue targets of between £1.56m and £10.0m over the period. Any new shares allotted as consideration will be priced based on the average mid-market price preceding issue subject to a minimum of 10p per share. Based on Datadialogs' management's current expectations of revenues over the two year period post acquisition provision for contingent consideration has been made for a share issue of £265,495 (2,654,945 shares at 10p per share) and cash payments of £465,000 recorded at a present value of £400,000. This estimate is based on the most recent financial forecast for the business and is different to that reported in the Group's interim report issued in August 2009.

Impact of acquisition on the results of the Group

Included in the profit for the period is a loss of £0.49m attributable to Datadialogs Ltd (comprising a trading loss £0.26m, amortisation of acquired intangibles £0.19m and implied interest on contingent consideration £0.04m). Had this business combination been effected on 1 December 2008, the revenue of the Group from continuing operations attributable to Datadialogs would have been £0.61m and the loss for the period from continuing operations of Datadialogs would have been £0.56m (comprising a trading loss £0.29m, amortisation of acquired intangibles £0.23m and implied interest on contingent consideration £0.04m). The Directors of the Group consider these 'pro-forma' numbers to represent an approximate measure of performance of the combined Group on an annual basis and to provide a reference point for comparison in future periods.

27 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed.

The directors are considered to be the key management personnel of the Group. Details of Directors' remuneration are given within the audited financial information section of the Remuneration report on pages 1 to 3.

M. C. Brooks is a partner of Slikware which during the year provided consultancy services to the Company, charges amounting to £105,000 for consultancy were paid to Slikware during the period.

Company balance sheet as at 30 November 2009

	Note	*2009 £'000*	*2009 £'000*	*2008 £'000*	*2008 £'000*
Fixed assets					
Investments	C		9,705		8,165
Current assets					
Debtors	D	418		115	
Cash at bank and in hand		2,243		2,789	
		2,661		2,094	
Creditors: amounts falling due within one year	E	(530)		(534)	
Net current assets			2,131		2,370
Total assets less current liabilities			11,836		10,535
Provisions for liabilities	F		(444)		(6)
Net assets			11,392		10,529
Capital and reserves					
Called up share capital	G, H		1,091		1,090
Share premium account	H		6,804		6,803
Shares to be issued	H		266		—
Profit and loss account	H		3,231		2,636
Shareholders' funds	H		11,392		10,529

These financial statements were approved by the Board of Directors and authorised for issue on 24 February 2010.

M. P. Neville J. A. Ormondroyd

Non-Executive Chairman Finance Director

The notes on pages 33 to 36 form part of these financial statements.

Notes to the company financial statements for the year ended 30 November 2009

A Accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiary undertakings are shown at cost less provision for any impairment value. Where merger relief is available to be used, an investment in a subsidiary undertaking is recorded in the company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration.

The carrying values of fixed assets investments are reviewed for impairment when a triggering event arises that indicates assets might be impaired. Impairment is assessed by comparing the carrying value of the asset against the higher of its realisable value and value in use. Any provision for impairment is charged to the profit and loss account in the year concerned.

Taxation

Current taxation is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Share-based payments

The Company issues equity-settled share-based payments to certain employees and directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and is only adjusted for the failure to meet nonmarket vesting conditions. Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the period as an increase to investment in subsidiary undertakings.

National insurance on share options

To the extent that the share price at the balance sheet date is greater then the exercise price on employee share options, provision for any National insurance contribution has been made based on the prevailing rate of National Insurance. The provision is accrued over the performance period attaching to the award.

B Profit for the financial year

As permitted by section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The Company reported a profit after tax for the financial year ended 30 November 2009 of £557,000 (2008 – £809,000).

The auditors' remuneration for audit and other services is disclosed in note 6 to the consolidated financial statements.

Disclosures on the remuneration of each individual Director are included within the audited financial information section of the Remuneration report on pages 1 to 3. The only staff costs of the Company are the Directors.

C Fixed Asset Investments

	2009 *£'000*	*2008* *£'000*
Investment in Group undertakings	9,705	8,165

	£'000
Analysed as:	
Cost at 1 December 2008	8,165
Additions – share option granted to subsidiary employees	38
Additions – acquisition of Datadialogs Ltd (note 26)	1,502
Cost at 30 November 2009	9,705

The Company's subsidiaries at the year-end were Telephonetics VIP Limited, which provides automated speech recognition and computer telephony solutions in the UK, Datadialogs Ltd which provides data integration solutions in the UK and Voice Integrated Products Ltd, a dormant company. All of which are incorporated in England and Wales and of which the Company holds 100% of the voting and ordinary share capital.

D Debtors

	2009 *£'000*	*2008* *£'000*
Amounts owed by Group undertakings	337	6
Deferred tax asset	69	69
Other debtors	5	34
Prepayments and accrued income	7	6
	418	115

E Creditors: Amounts falling due within one year

	2009 *£'000*	*2008* *£'000*
Trade creditors	58	30
Amounts owed to Group undertakings	141	141
Corporation tax	2	16
Other taxation and social security	21	18
Other creditors	31	30
Accruals and deferred income	277	299
	530	534

F Provisions for liabilities

	Contingent Consideration £'000	National insurance on share options £'000	Total £'000
At 1 December 2008	—	6	6
Arising on acquisition	400	—	400
Charged in year	39	—	39
Released in year	—	(1)	(1)
At 30 November 2009	439	5	444
Due within one year or less	197	5	202
Due after more than one year	242	—	242
	439	5	444

The final liability to National Insurance on share options is dependent on factors concerning the market price of the Company's shares at the date of exercise, the number of options that will be exercised and the prevailing rate of National Insurance at the date of exercise.

Contingent consideration relates to the acquisition of Datadialogs Ltd, see note 26.

G Called-up share capital

	2009 Number of ordinary shares	2009 Nominal value £'000	2008 Number of ordinary shares	2008 Nomina value £'000
Authorised				
Ordinary shares of 1p each	300,000,000	3,000	300,000,000	3,000
Deferred shares of 1p each	50,000,000	500	50,000,000	500
	350,000,000	3,500	350,000,000	3,500
Allotted, called up and fully paid				
Ordinary shares of 1p each	109,138,806	1,091	109,025,334	1,090
Deferred shares of 1p each	—	—	—	—

H Combined reconciliation of movements in shareholders' funds and statement ofmovement on reserves

	Share capital £'000	Share premium account £'000	Shares to be issued £'000	Profit and loss account £'000	Total £'000
At 1 December 2008	1,090	6,803	—	2,636	10,529
Profit for the period	—	—	—	557	557
Share-based payment credit	—	—	—	38	38
Issue of share capital	1	1	—	—	2
Acquisition of Datadialogs Ltd (note 26)	—	—	266	—	266
At 30 November 2009	1,091	6,804	266	3,231	11,392

I Related party transactions

The Company has taken advantage of the exemption which is conferred by Financial Reporting Standard No 8, Related Party Disclosures, which allows it not to disclose transactions with other Group undertakings that are wholly owned by the Group.

M. C. Brooks is a partner of Slikware which during the year provided consultancy services to the Company, charges amounting to £105,000 for consultancy were paid to Slikware during the period.

There were no other related party transactions during the year.

J Ultimate controlling party

Telephonetics Plc is incorporated and registered in England and Wales and heads the largest group for which consolidated financial statements are prepared.

Remuneration report

Remuneration Committee

The Remuneration Committee was constituted on 20 June 2005 and comprises the Non-Executive Directors, being M.P. Neville and M.C. Brooks at the time of this report. It is chaired by M.P. Neville.

The Remuneration Committee formally met twice during the year. Except when matters concerning their own positions are being considered, the Chief Executive and the Finance Director are invited to assist the Remuneration Committee. The Company Secretary is secretary of the Remuneration Committee.

Remuneration policy

The Remuneration Committee reviews remuneration of Executive Directors and senior management each year. The main aim of the Company's executive pay policy is to secure the skills and experience the Group needs to meet its objectives and satisfy shareholder expectations. Each review is set in the context of Group needs, individual responsibilities, performance, and market practice. It also has regard to the approach to remuneration across the Group as a whole.

Executive Directors' and senior management's remuneration is designed to be competitive in the market-place and to have a significant performance-related element.

Directors' remuneration

The main components of remuneration comprise:

Basic salary and benefits

The Group's policy for the current and subsequent financial years is that Executive Directors' basic salaries should be maintained at competitive levels for comparable positions. Benefits-in-kind consist of private car allowances or provision of a company car and private medical and health insurance.

Performance-related bonuses

The Executive Directors participate in an annual bonus scheme linked to the achievement of financial and individual performance targets set by the Remuneration Committee for each financial year. The bonus scheme is structured so as to pay 50% of salary for achieving targets. Bonuses payable are subject to the discretion of the Remuneration Committee after taking into account an overall view of the Group's performance and its assessment of strategic and personal performance.

In respect of the year under review, W.B. Burgar, A.P. McKay and J.A. Ormondroyd received an award of £58,000, £49,000 and £58,000 representing 49.7%, 42.0% and 49.7% of salary paid in the period.

Executive Directors' service agreements

Each of the Executive Directors has a service agreement with the Company. These are rolling agreements which can be terminated by either party giving to the other no fewer than 12 months' notice in writing at any time. If the Company terminates the contract by notice but other than on giving full notice, the service agreements provide for the payment of a fixed amount equal to salary and other contractual benefits for the unexpired portion of the duration of the appointment or entitlement to notice, as the case may be.

Non-Executive Directors

The remuneration of the Non-Executive Chairman and Non-Executive Director is determined by the Board on the recommendation of the Chief Executive on an annual basis and takes into account market rates.

M.P. Neville has a 12 month rolling appointment as Non-Executive Chairman and received a basic fee of £44,000 per annum. M.C. Brooks has a 3 month rolling appointment as Non-Executive Director and received a basic fee of £15,000 per annum. The terms of their engagement are set out in a letter of appointment, which sets out their duties and responsibilities and confirms their remuneration.

The Board awarded M.P. Neville and M.C. Brooks a discretionary bonus of £7,000 in recognition of the additional time spent assisting the Board during the period.

Directors' remuneration

The total amounts of Directors' remuneration and other benefits are shown below:

Name	*Salary and fees £'000*	*Bonus £'000*	*Short-term Benefits in Kind £'000*	*2008 Total £'000*	*2007 Total £'000*
T.S . Beattie (1)	—	—	—	—	3
M.C. Brooks (2)	11	7	1	19	—
W.B. Burgar	117	58	10	185	150
A.P. McKay	117	49	10	176	150
M.P. Neville	44	7	—	51	40
J.A. Ormondroyd	117	58	10	185	153
B.L. Smith (1)	—	—	—	—	62
Totals	406	179	31	616	558

(1) Retired from the Board on 26 April 2007.

(2) Since appointment to the Board on 10 March 2008.

Options granted to Directors

The share options, over ordinary shares in the Company, held by each Director at 30 November 2008 are as follows:

Name	*Note*	*At 30 November 2008 (Number)*	*Granted in year (Number)*	*Lapsed in 2007 (Number)*	*At 1 December 2007 (Number)*	*Exercise Price (Pence)*	*Grant Date*	*Latest date of exercise*
M.P. Neville	1	654,514	—	—	654,514	1.0	07.07.05	06.07.15
J.A. Ormondroyd	2	12,275	—	—	12,275	36.0	07.07.05	06.07.15
	3	305,555	—	—	305,555	22.0	07.07.05	06.07.15
	3	305,555	—	—	305,555	18.0	07.07.05	06.07.15
	4	1,062,000	—	—	1,062,000	1.0	03.04.07	02.04.17

(1) Granted as an unapproved share option in 2005. These options vest in four equal instalments every six months from the date of grant.

(2) Granted under the 2005 Telephonetics plc Enterprise Management Incentive Scheme.

(3) Granted as an unapproved share option in 2005. The option vested in two tranches of 305,555 shares on 7 July 2006 and 6 January 2007. The option price was determined by the Remuneration Committee based on the results for the year.

(4) Granted under the 2007 Telephonetics plc Enterprise Management Incentive Scheme. These options may only be regarded as vested and exercisable once two conditions have been satisfied. The first condition is that an adjusted PBT target has to be satisfied to determine the number of earned option shares for each of the financial years ended 30 November 2007, 2008 and 2009. The second condition relates to the vesting periods of the earned option shares. The vesting period commences from whenever any particular options become earned and lasts for a period of two years.

At 30 November 2008, the closing middle market price of a share was 8.25 pence. During the financial year the share price reached a high of 10.25 pence and a low of 6.5 pence.

Pensions

The table below sets out the contributions by the Company to Directors' personal pension schemes during the year:

Name	*30 November 2008 £'000*	*30 November 2007 £'000*
W.B. Burgar	22	20
A.P. McKay	22	20
J.A. Ormondroyd	22	20

Directors' interests in shares

The interests, all of which are beneficial, of the Directors (and their immediate families) in the share capital of the Company, as shown in the register kept by the Company, are set out below:

Name	*30 November 2008 £'000*	*30 November 2007 £'000*
M.C. Brooks (1)	12,909,843	12,909,843
W.B. Burgar	20,138,889	20,138,889
A.P. McKay	20,288,889	20,288,889
M.P. Neville	150,000	150,000

(1) On 27 August 2008 M.C. Brooks transferred 1,970,588 ordinary shares of 1p each to his pension fund, Crescent Trustees Ltd.

There have been no changes in the above shareholdings between 30 November 2008 and 24 February 2009.

On 7 April 2006 the Company announced that A.P. McKay and W.B. Burgar each granted to Cineworld Cinemas Ltd options of up to 657,895 over their own private ordinary shareholding. These options vest in equal instalments over a six year term from 5 September 2006, and at an exercise price of 10% of the closing mid-market price of the shares on the business day preceding the exercise of each option. As at 24 February 2009, no such options had been exercised.

By order of the Remuneration Committee

M.P. Neville
Non-Executive Chairman

25 February 2009

Report of the independent Auditors
To the shareholders of Telephonetics plc

We have audited the Group and parent company financial statements (the 'financial statements') of Telephonetics plc for the year ended 30 November 2008 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of changes in equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and Auditor

The Directors' responsibilities for preparing the annual report and Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' report is consistent with those financial statements. We also 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. This other information comprises only the Directors' report, the remuneration report, the Chairman's statement, the business review and the corporate governance statement. 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 judgements 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 Group 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 affairs as at 30 November 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 30 November 2008;

- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

BDO Stoy Hayward LLP
Chartered Accountants
and Registered Auditors
London

25 February 2009

Consolidated income statement for the year ended 30 November 2008

	Note	*2008* *£'000*	*2007* *£'000*
Revenue	4	9,951	9,667
Cost of sales		(3,865)	(3,846)
Gross profit		6,086	5,821
Operating expenses	5	(5,220)	(5,821)
Profit from operations	6	866	—
Profit from operations analysed as:			
Profit from operations before restructuring credit/(costs)		786	291
Restructuring credit/ (costs)	5	80	(291)
		866	—
Finance expense	8	(3)	(3)
Finance income	9	208	142
Profit before tax		1,071	139
Tax (expense)/credit	10	(120)	42
Profit for the year		951	181
Earnings per share			
Basic – pence	11	0.87	0.17
Diluted – pence	11	0.80	0.16

The notes on pages 10 to 33 form part of these financial statements.

Consolidated statement of changes in equity for the year ended 30 November 2008

	Note	*Share capital £'000*	*Share premium £'000*	*Reverse acquisition reserve £'000*	*Merger reserve £'000*	*Retained earnings £'000*	*Total £'000*
Balance at 1 December 2006		1,083	6,798	506	4,951	(308)	13,030
Profit for the year		—	—	—	—	181	181
Total recognised income and expense		—	—	—	—	181	181
Share-based payment credit		—	—	—	—	173	173
Issue of share capital	21	7	4	—	—	—	11
Balance at 30 November 2007	22	1,090	6,802	506	4,951	46	13,395
Balance at 1 December 2007		1,090	6,802	506	4,951	46	13,395
Profit for the year		—	—	—	—	951	951
Total recognised income and expense		—	—	—	—	951	951
Share-based payment credit		—	—	—	—	23	23
Issue of share capital	21	—	1	—	—	—	1
Balance at 30 November 2008	22	1,090	6,803	506	4,951	1,020	14,370

Consolidated balance sheet for the year ended 30 November 2008

	Note	*2008* *£'000*	*2007* *£'000*
Assets			
Non-current assets			
Property, plant & equipment	12	269	322
Intangible assets	13	11,093	10,952
Deferred tax assets	20	337	3
Total non-current assets		11,395	11,347
Current assets			
Inventories	15	335	249
Trade & other receivables	16	2,536	2,245
Corporation tax receivable		—	33
Cash & cash equivalents	17	5,389	4,028
Total current assets		8,260	6,555
Total assets		19,655	17,902
Liabilities			
Current liabilities			
Trade & other payables	18	5,149	4,322
Corporation tax payable		81	—
Provisions	19	6	60
Total current liabilities		5,236	4,382
Non-current liabilities			
Provisions	19	49	125
Total non-current liabilities		49	125
Total liabilities		5,285	4,507
Net assets		14,370	13,395
Capital & reserves			
Share capital	21	1,090	1,090
Share premium	22	6,803	6,802
Reverse acquisition reserve	22	506	506
Merger reserve	22	4,951	4,951
Retained earnings	22	1,020	46
Total equity		14,370	13,395

The financial statements were approved by the Board of Directors and authorised for issue on 25 February 2009.

M.P. Neville
Non-Executive Chairman

J.A. Ormondroyd
Finance Director

The notes on pages 10 to 33 form part of these financial statements.

Consolidated cash flow statement for the year ended 30 November 2008

	Note	*2008* *£'000*	*2007* *£'000*
Cash flow from operating activities			
Profit for the year		951	181
Adjustments for:			
Depreciation	12	149	259
Loss on disposal of property, plant and equipment	12	18	—
Amortisation	13	188	170
Finance income	8	(208)	(142)
Finance expense	9	3	3
Share-based payment expense	24	23	173
Income tax expense/(credit)	10	120	(42)
Operating cash flows before movements in working capital & provisions		1,244	602
(Increase)/decrease in inventories		(86)	42
(Increase) in trade and other receivables		(291)	(503)
Increase/in trade and other payables		827	882
(Decrease)/increase in provisions		(130)	98
Cash generated from operations		1,564	1,121
Interest paid		(3)	(3)
Interest received		208	142
Corporation tax reclaimed/(paid)		34	(52)
Net cash flow from operating activities		1,803	1,208
Investing activities			
Purchase of property, plant & equipment	12	(114)	(71)
Development expenditure	13	(216)	(124)
Purchase of other intangible assets	13	(113)	(45)
Net cash (used in) investing activities		(443)	(240)
Financing activities			
Issue of ordinary shares	22	1	11
Net cash from financing activities		1	11
Net increase in cash & cash equivalents		1,361	979
Cash & cash equivalents at the beginning of the year	17	4,028	3,049
Cash & cash equivalents at end of the year	17	5,389	4,028

The notes on pages 10 to 33 form part of these financial statements.

Notes to the consolidated financial statements for the year ended 30 November 2008

1 Accounting policies

Basis of preparation

Prior to 2008 the Group prepared its audited financial statements under UK Generally Accepted Accounting Principles ('UK GAAP'). For the year ended 30 November 2008 the Group is required to prepare its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU ('EU IFRS').

The transition date for the Group's application of EU IFRS is 1 December 2006 and the comparative information has, subject to the requirements and options in IFRS 1 'First-time adoption of International Financial Reporting Standards' been restated accordingly. Details of the effect of the adoption of EU IFRSs on the Group's income statement and balance sheet are given in note 26.

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

- Amendment to IAS23 Borrowing Costs
- Amendment to IFRS2 Share-based Payment: Vesting Conditions and Cancellations
- Amendments to IAS1 Presentation of Financial Statements: A Revised Presentation
- Amendments to IAS27 Consolidated and Separate Financial Statements
- Amendments to IAS32 and IAS1 Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to IAS39 and IFRS7: Reclassification of Financial Instruments
- Amendments to IFRS1 and IAS27 Cost of an Investment in a subsidiary, jointly controlled entity or associate
- Amendment to IAS39 Financial Instruments: Recognition and Measurement: Eligible Hedged Items
- IFRIC12 Service Concession Arrangements
- IFRIC13 Customer Loyalty Programmes
- IFRIC14 and IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IFRIC15 Agreements for the Construction of Real Estate
- IFRIC16 Hedges of a Net Investment in a Foreign Operation
- IFRIC17 Distributions of Non-cash Assets to Owners
- IFRIC18 Transfers of assets from customers
- IFRS 8 Operating Segments
- Revised IFRS3 Business Combinations

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact other than presentational, on the financial statements of the Group.

Changes in accounting policies – First-time adoption

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS1 'First-time Adoption of International Financial Reporting Standards':

- Business combinations effected before 1 December 2006, including those that were accounted for using the merger method of accounting under UK accounting standards, have not been restated.
- The carrying amount of capitalised goodwill at 30 November 2006hat arose on business combinations accounted for using the acquisition method under UK GAAP was frozen at this amount and tested for impairment at 1 December 2006. The carrying amount was

adjusted for intangible assets that would have been required to be recognised in the acquiree's separate financial statements in accordance with IAS38 'Intangible Assets', such as development costs.

- IFRS2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 January 2006.

The Group has made estimates under IFRSs at the date of transition, which are consistent with those estimates made for the same date under UK GAAP unless there is objective evidence that those estimates were in error, i.e. the Group has not reflected any new information in its opening IFRS balance sheet but reflected that new information in its income statement for subsequent periods.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Basis of consolidation

The Group financial statements consolidated the financial statements of Telephonetics plc and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the consideration paid over the fair values of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

On 7 July 2005, Telephonetics VIP Ltd acquired Telephonetics plc (then named Leptis Magna plc) via the reverse acquisition method. It would normally be necessary for the Group's consolidated accounts to follow the legal form of the business combination. In that case the pre-combination results would be included within the Group from 7 July 2005. However, this would portray the combination as an acquisition of Telephonetics VIP Ltd by Telephonetics plc, a cash shell at that time, and would, in the opinion of the Directors, fail to accurately portray the substance of the business combination. As a result, the Directors adopted reverse acquisition accounting as the basis of consolidation for the acquisition of Telephonetics VIP Ltd.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of consideration paid over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of acquisition.

Goodwill is recognised as an asset at cost and reviewed for impairment at least annually. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly. Value in use is determined by reference to the Group's anticipated future cash flows discounted to present value. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

The Group provides hosted and customer installed automated speech recognition and computer telephony solutions. Revenue in respect of:

- hosted telephony call and transaction revenues is recognised when the call or transaction has been delivered over the Group's network;
- goods and professional services is recognised when the goods or services have been delivered to the customer; and
- maintenance and subscription service contracts is recognised evenly over the period in which the service is provided to the customer. The Group's normal operating cycle can be greater than one year.

Leased assets

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Taxation

The tax expense or credit represents the sum of the tax currently payable or receivable and deferred tax. The tax currently payable or receivable is based on taxable profit for the year.

Taxable profit differs from net profits as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability or receivable for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arose from goodwill or from the initial recognition (other than in a business combination) of other asset and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment are stated at their purchase price, together with any incidental expenses of acquisition. Provision for depreciation is made so as to write off the cost of property, plant and equipment less the estimated residual value, on a straight-line basis, over the expected useful economic life of the assets concerned. The principal annual rates used for this purpose are:

- Fixtures and fittings 20%-33% per annum
- Computer equipment 14%-33% per annum
- Motor vehicles 25% per annum

Intangible assets

Intangible assets that meet the recognition criteria of IAS38, 'Intangible Assets' are carried at cost less amortisation and any impairment losses. Intangible assets comprise of capitalised development costs and acquired software.

Internally generated intangible assets – research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Any internally generated intangible asset arising from the Group's development projects are recognised only if all of the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- The intention to complete the intangible asset and use or sell it.
- The ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Amortisation

Internally generated intangible assets (development costs) and acquired software licenses are amortised on a straight-line basis over their useful lives, typically three years. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Charges are recognised in the operating expense line on the face of the income statement.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. An impairment loss or their subsequent reversal is recognised as an expense immediately.

Impairment charges and reversals are recognised in the operating expense line on the face of the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost of goods for resale is calculated on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired. The Company has not classified any of its financial assets as at fair value through profit or loss, held to maturity or available for sale.

The Company's accounting policy for loans and receivables is as follows:

Loans and receivables:

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet.

Cash and cash equivalents includes cash in hand and deposits held at call with banks.

Financial liabilities

The Group classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company has not classified any of its financial liabilities as at fair value through profit or loss.

The Company's accounting policy for other financial liabilities is as follows:

Other financial liabilities:

Other financial liabilities include the trade payables and other short term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Equity instruments

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

Provisions for restructuring costs are recognised when the Group has a detailed formal plan for the restructuring that has been communicated to affected parties.

Where a leased property ceases to be used for the Group's business a provision is made for the residual lease commitments to the first break clause, together with outgoings, after taking into account estimated possible sub-let income.

A dilapidation provision for the estimated cost of restoring the Group's leased property at lease terms to the condition they were originally leased is charged to the income statement over the life of the lease.

Share-based payments

The Group issues equity-settled share based payments to certain employees and Directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

Pensions

Contributions to the Group's defined contribution pension scheme and employee's personal pension plans are charged to the income statement in the year in which they become payable.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

2 Critical accounting estimates and judgements

Critical judgements in applying the Group's accounting policies

The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions 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.

Revenue recognition

In establishing the Group's accrued revenue policy the Directors have used their judgement to determine what proportion of a good or professional service sale has been delivered. The Directors base their judgement on delivery notes, customer acceptance records and project management tools.

Capitalisation of internal development costs

In order to comply with the Group's accounting policy relating to internally generated intangible assets (development expenditure), the Directors are required to assess the fair value of the costs incurred on the Group's development projects that are allowed to be capitalised. These costs are principally salary related, representing the costs of the employees conducting the development. In order to measure the costs that should be capitalised, the Directors calculate a standard hourly rate for development employees and apply this rate to time recorded on time sheets which have been allocated to qualifying development projects. The total value of internal costs capitalised as intangible assets related to research and development at the balance sheet date was £216,000 (2007 – £124,000).

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has 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 present value. Actual events may vary materially from management expectation.

3 Financial instruments – risk management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The Group is exposed through its operations to credit risk, market risk and liquidity risk.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are trade receivables, cash at bank and trade and other payables. The Group has no debt, significant net foreign currency monetary assets or liabilities nor any significant hedged transactions or positions.

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board received monthly reports from the finance function through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Group is mainly exposed to credit risk from credit sales. It is Group policy to assess the credit risk of new customers before entering contracts. The sales ledger is reviewed weekly to ensure all receivables are recoverable. Refer to note 16 for further details on trade receivables, including analyses of bad debts, ageing and profile by currency.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. At the year end the Group's cash at bank was held with Lloyds TSB Group plc. Given the recent "credit crunch" the Group has placed a proportion of its cash at bank with Barclays PLC.

The Group does not enter into derivatives to manage credit risk.

Market risk

Market risk arises from the Group's use of interest-bearing and foreign currency financial instruments. It is the risk that the future cash-flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk) or foreign exchange rates (currency risk).

The Group manages its cash held on deposit to gain the best possible interest rates available. The average interest rate gained on cash held during the year was 5.0%. A 2% movement in interest rates would impact upon net assets and net profit by approximately £63,000.

The Group conducts some trade in euros and therefore holds a small amount of cash and receivables in euros. The group does not consider this to be a material risk and therefore does not hedge against movements in foreign currency. A 10% movement in the exchange rate between sterling and the euro would not have a material effect on the net assets or net profit of the Group.

Liquidity risk

Liquidity risk arises from the Group's management of working capital. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Board review an annual 12-month cash flow projection as well as information regarding cash balances on a monthly basis. At the balance sheet date, liquidity risk was considered to be low given the fact the Group had no borrowings and cash and cash equivalents are thought to be at acceptable levels.

The Group does not have any committed facilities.

Capital disclosures

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 21 and 22. The Group does not have any borrowings and manages its capital to ensure that entities in the Group will be able to continue as going concerns. There have been no changes in the nature of the Group's capital structure during the year.

4 Segmental analysis

Business segments

The Group offers a portfolio of premises-based and hosted speech recognition and voice automation solutions to its customers. It is not organised on a divisional basis and therefore the Group reports its primary segment information.

Geographical segments

The Group's operation is based in the UK and all sales originate in the UK.

5 Operating expenses

	2008 *£'000*	*2007* *£'000*
Operating expenses are analysed as:		
Research and development	610	594
Sales and marketing	3,026	3,188
General and administration	1,584	2,039
Analysed as:		
General and administration before restructuring (credit)/expense	1,664	1,748
Restructuring (credit)/expense (1)	(80)	291
	1,584	2,039
	5,220	5,821

(1) The Group completed the fi nal integration restructuring of Voice Integrated Products Limited in 2007 resulting in a charge for that year of £291,000. That expense consisted of a provision of £147,000 for vacant premises and £144,000 of redundancy costs. In May 2008 the Group reorganised its leasehold property and terminated various leases earlier than expected. As a result, £80,000 of the vacant property provision was surplus and has been credited back to the income statement in the year.

6 Profit from operations

This is arrived at after charging:

	2008 *£'000*	*2007* *£'000*
Staff costs (see note 7)	5,274	5,266
Depreciation of property, plant and equipment	149	259
Amortisation of intangible assets	188	170
Research and development costs	610	594
Operating lease expense:		
– Plant and machinery	17	53
– Property	145	171
Write-down of inventory to net realisable value	29	6
Loss on disposal of property, plant and equipment	18	—

Auditors' remunerations is analysed as follows:

	2008 £'000	2007 £'000
Fees payable to the Company's Auditor for the audit of the Company's annual accounts	33	21
Fees payable to the Company's Auditor for other service to the Group:		
– The audit of the Company's subsidiaries pursuant to legislation	29	8
Total audit fees	62	59
Other services pursuant to legislation:		
– IFRS	14	—
– Other services	—	5
Total non-audit fees	14	5

7 Staff costs

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

	2008 Number	2007 Number
Operations	26	24
Research and development	12	11
Sales and marketing	36	40
General and administration	17	17
	91	92

	2008 £'000	2007 £'000
Their aggregate remuneration comprised:		
Wages and salaries	4,352	4,246
Employer's national insurance contributions and similar taxes	495	496
Defi ned contribution pension costs	246	191
Other staff related expenses	222	128
Share-based payment (credit)/expense	(41)	61
Exceptional redundancy costs (note 5)	—	144
	5,274	5,266

Included within the above costs are staff costs capitalised as development expenditure, which totalled £216,000 (2007 – £124,000).

Key management personnel and Directors' remuneration

The Board considers the Directors to be the key management personnel. Details of individual Directors remuneration is set out in the Directors' remuneration table on page 2 and pension table on page 2 within the Remuneration Committee Report. In addition, employer's national insurance contributions incurred relating to Directors' was £86,000 (2007 – £71,000) and share-based payment charges was a credit of £7,000 (2007 – £150,000). The overall total of key management personnel compensation, including Directors' remuneration, pensions, share-based payments and employer's national insurance contributions is £761,000 (2007 – £704,000).

8 Finance expenses

	2008 £'000	2007 £'000
Bank charges	3	3

9 Finance income

	2008 £'000	2007 £'000
Interest on bank deposits	208	142

10 Tax

	2008 £'000	2007 £'000
Current income tax:		
Current year	80	26
Deferred tax (note 20):		
Original and reversal of temporary differences	27	46
Adjustment to prior period	13	22
Total deferred tax	40	(68)
Total tax charge/(credit) in income statement	120	(42)

UK Corporation tax is calculated at 28% (2007 – 30%) of the estimated assessable profit for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

	2008 £'000	2007 £'000
Profit before tax	1,071	139
Tax at the UK corporation tax rate of 28% (2007 – 30%)	328	27
Tax effects of:		
Share option expenses	(18)	(37)
Deduction for share options exercised	(1)	(16)
Utilisation of brought forward losses	(143)	(80)
Marginal rate relief	(14)	(14)
Research and development tax credit	(46)	(23)
Deferred research and development expenses	(1)	(7)
Decelerated capital allowances	—	5
Disallowed expenses	7	14
Tax expense/credit for the year	120	42

11 Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue is 109,010,585 (2007 – 108,760,169) and the earnings used is profit after tax being £951,000 (2007 – £181,000).

	2008 Number	*2007 Number*
Reconciliation of denominator:		
Weighted average number of shares used for the calculation of basic earnings per share	109,010,585	108,760,169
Effect of dilutive potential ordinary shares		
Exercise of share options	9,741,928	8,364,080
Weighted average number of shares used for the calculation of diluted earnings per share	118,752,513	117,124,249

Certain employee options have also been excluded from the calculation of diluted EPS as their exercise price is greater than the weighted average share price during the year (i.e. they are out-of-the money) and therefore it would not be advantageous for the holders to exercise those options. The total number of options in issue is disclosed in the note 24.

12 Property, plant and equipment

	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicle £'000	Total £'000
Cost				
At 1 December 2006	368	775	4	1,147
Additions	32	39	—	71
Disposals	—	(1)	(4)	(5)
Transfers to current assets	—	(6)	—	(6)
At 30 November 2007	400	807	—	1,207
At 1 December 2007	400	807	—	1,207
Additions	48	66	—	114
Disposals	(18)	(23)	—	(41)
At 30 November 2008	430	850	—	1,280
Accumulated Depreciation				
At 1 December 2006	264	370	1	635
Charge for the year	81	176	2	259
Disposals	—	(1)	(3)	(4)
Transfer to current assets	—	(5)	—	(5)
At 30 November 2007	345	540	—	885
At 1 December 2007	345	540	—	885
Charge for the year	301	19	—	149
Disposals	(5)	(18)	—	(23)
At 30 November 2008	370	641	—	1,011
Net book value				
At 30 November 2006	104	405	3	512
At 30 November 2007	55	267	—	322
At 30 November 2008	60	209	—	269

13 Intangible assets

Group	Goodwill £'000	Development costs £'000	Licences £'000	Total £'000
Cost				
At 1 December 2006	13,036	88	509	13,633
Additions	—	124	45	169
At 30 November 2007	13,036	212	554	13,802
At 1 December 2007	13,036	212	554	13,802
Additions	—	216	113	329
At 30 November 2008	13,036	428	667	14,131
Accumulated impairment losses and amortisation				
At 1 December 2006	2,501	25	154	2,680
Provided for year	—	34	136	170
At 30 November 2007	2,501	59	290	2,850
At 1 December 2007	2,501	59	290	2,850
Provided for year	—	76	112	188
At 30 November 2008	2,501	135	402	3,038
Carrying amount				
At 30 November 2006	10,535	63	355	10,953
At 30 November 2007	10,535	153	264	10,952
At 30 November 2008	10,535	293	265	11,093

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from that business combination. The cost and carrying value of goodwill has been allocated for the two CGUs at 30 November as follows:

	Cost 2008 £'000	Cost 2007 £'000	Carrying value 2008 £'000	Carrying value 2007 £'000
Telephonetics plc	2,043	2,043	—	—
Telephonetic VIP Ltd	10,993	10,993	10,553	10,553
	13,036	13,036	10,553	10,553

Goodwill of £2,043,000 arising on the reverse acquisition of Telephonetics plc was impaired in the year ended 30 November 2005 as Telephonetics plc had no continuing business and therefore the goodwill had no intrinsic value.

The recoverable amount of goodwill relating to Telephonetics VIP Ltd was determined from value in use calculations. The key assumptions for the value in use calculations are discount rate, growth rate and expected changes to direct costs. The Group prepared a five-year cash flow forecasts derived from the most recent financial budgets and plans approved by the Board for the next five years and extrapolates this beyond five years based on an estimated growth rate of zero per cent.

The pre-tax adjusted discount rate used in the testing at 30 November 2008 was 11% which management estimate reflects the current market assessment of the time value of money and the risks specific to the CGU. The growth rate is based on past experience adjusting for industry growth factors and includes assumptions regarding a further decline in MovieLINE® revenues and a return from the continuing investment in marketing of the Group's packaged applications into the public sector. Changes in direct costs are based on past practices and expectations of future changes in the market.

14 Subsidiaries

The principal subsidiaries of Telephonetics plc, all of which have been included in these consolidated financial statements, are as follows:

		Proportion of ownership interest at 30 November	
Name	*Country of incorporation*	*2008*	*2007*
Telephonetics VIP Ltd	Great Britain	100%	100%
Voice Integrated Products Ltd	Great Britain	100%	100%

15 Inventories

	2008	*2007*
	£'000	*£'000*
Finished goods and goods for resale	335	249

16 Trade and other receivables

	2008	*2007*
	£'000	*£'000*
Trade receivables	1,948	1,565
Less: provision for impairment of trade receivables	(39)	(28)
Trade receivables – net	1,909	1,537
Other receivables	42	25
Prepayments	230	238
Accrued income	355	445
Total trade and other receivables	2,536	2,245
Trade receivables net of allowances are held in the following currencies:		
Euro	23	10
Sterling	1,886	1,527
	1,909	1,537

Included in the Group's trade receivables – net balance are debtors with a carrying amount of £277,000 (2007 – £296,000) which are past due at the reporting date. The Group does not hold collateral over these balances. The ageing of past due deliverables is as follows:

	Impaired 2008	*Impaired 2007*	*Not Impaired 2008*	*Not Impaired 2007*
	£'000	*£'000*	*£'000*	*£'000*
31-60 days	—	8	120	225
61-90 days	11	—	122	39
Over 90 days	25	3	35	32
	36	11	277	296

Movement in the allowance for doubtful debts:

	2008 £'000	2007 £'000
Balance at the beginning of the period	28	35
Provided during the year	78	28
Unused amounts reversed during the year	(67)	(32)
Written off during the year	—	(3)
Balance at the end of the period	39	28

In determining the recoverability of a trade receivable the Group considers changes in credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. On the basis that the customers of the Group consist of blue chip companies and public sector organisations the credit quality of the trade receivables is considered to be good.

Financial assets classified as loans and receivables:

Fair value Fair value

	2008 £'000	2007 £'000
Trade receivables	1,909	1,537
Accrued income	355	445
Cash and cash equivalents (note 17)	5,389	4,028
	7,653	6,010

The Directors consider the carrying value of financial assets is not materially different to fair value. The Group does not hold collateral over these financial assets.

17 Cash and equivalents

Cash and cash equivalents are held in the following currencies:

	2008 £'000	2007 £'000
Sterling	5,278	3,916
Euro	111	32
	5,389	4,028

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

18 Trade and other payables – current

	2008 £'000	2007 £'000
Trade payables	844	591
Other tax and social security taxes	453	441
Pension	19	20
Other payables	142	177
Accruals	1,017	852
Deferred income	2,674	2,241
Total trade and other payables – current	5,149	4,322

Financial liabilities measured at amortised cost:

	Fair value 2008 £'000	*Fair value 2007 £'000*
Trade payables	844	591
Accruals	1,017	852
	1,861	1,443

The Directors consider the carrying value of fi nancial liabilities is not materially different to fair value.

Financial liabilities comprise expenses incurred in the ordinary course of business and are settled as they fall due usually within one to three months.

19 Provision for liabilities

	National insurance on share options[(1)] £'000	*Property provisions[(2)] £'000*	*Total £'000*
At 1 December 2007	6	179	185
Charged in year	—	11	11
Utilised in year	—	(61)	(61)
Released in year	—	(80)	(80)
At 30 November 2008	6	49	55
Due within one year or less	6	—	6
Due after more than one year	—	49	49
	11	49	55

(1) The final liability to National Insurance on share options is dependent on factors concerning the market price of the Company's shares at the date of exercise, the number of options that will be exercised and the prevailing rate of National Insurance at the date of exercise.

(2) In 2007 the Group completed its fi nal integration restructuring of Voice Integrated Product Ltd which resulted in a charge of £147,000 in that year for residual lease commitments of a vacated leasehold property in Poole. In May 2008 the Group reorganised its leasehold property and terminated various leases earlier than expected. As a result, £80,000 of the vacant property provision was surplus and has been credited back to the income statement in the current year.

The 30 November 2008 balance in property provisions now only reflects the estimated costs of restoring the Group's currently occupied leasehold properties at lease terms, to the condition in which they were originally leased.

20 Deferred tax

Deferred tax is calculated in full on temporary differences on the liability method using a tax rate of 28% (2007 – 28%). The movement on the deferred tax – account is as shown below:

	Accelerated capital allowances £'000	*Intangibles claimed in full £'000*	*Share-based payments £'000*	*Other temporary differences £'000*	*Total £'000*
At 1 December 2006	(103)	(11)	95	22	3
Credit/(charge) to income statement	69	(29)	11	19	70
At 1 December 2007	(34)	(40)	106	41	73
Credit/(charge) to income statement	25	(42)	(11)	(12)	(40)
At 30 November 2008	(9)	(82)	95	29	33

Other timing differences principally comprise holiday pay and pension accruals.

At the balance sheet date, the Group has unused tax losses of £Nil (2007 – £510,000) available for offset against future profits.

21 Share capital

	2008 Number of ordinary shares	*2008 Nominal value £'000*	*2007 Number of ordinary shares*	*2007 Nominal value £'000*
Authorised				
Ordinary shares of 1p each	300,000,000	3,000	300,000,000	3,000
Deferred shares of 1p each	50,000,000	500	50,000,000	500
	350,000,000	3,500	350,000,000	3,500

	2008 Number of ordinary shares	*2008 Nominal value £'000*	*2007 Number of ordinary shares*	*2007 Nominal value £'000*
Issued and fully paid				
Ordinary shares of 1p each				
At 1 December	108,972,557	1,090	108,273,781	1,083
Employee share options exercised	52,777	—	698,776	7
At 30 November	109,025,334	1,090	108,972,557	1,090

22 Reserves

	Share premium account £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 December 2006	6,798	506	4,951	(308)	11,947
Exercise of options	5	—	—	—	5
Profit for the financial year	—	—	—	181	181
Credit for share option expenses	—	—	—	173	173
At 30 November 2007	6,802	506	4,951	46	12,305
At 1 December 2007	6,802	506	4,951	46	12,305
Exercise of options	1	—	—	—	1
Profit for the financial year	—	—	—	951	951
Credit for share option expenses	—	—	—	23	23
At 30 November 2008	6,803	506	4,951	1,020	13,280

Share premium reserve can be defined as amount subscribed for share capital in excess of nominal value.

The reverse acquisition reserve was created on the reverse acquisition of Telephonetics plc by Telephonetics VIP Ltd on 7 July 2005. It comprises principally the pre-acquisition reserves of Telephonetics VIP Ltd, elimination of the investment in Telephonetics VIP Ltd, elimination of the net assets of Telephonetics plc and costs directly attributable to the reverse acquisition.

Merger reserve can be defined as amounts recognised as a result of claiming merger relief following the issue of shares of the Group as consideration for an acquisition.

Retained earnings can be defined as the cumulative net gains and losses recognised in the consolidated income statement.

23 Operating lease arrangements

The minimum lease payments under operating leases recognised as an expense in the year is £162,000 (2007 – £224,000).

At the balance sheet date, the Group has outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2008 £'000	2007 £'000
Within one year	140	221
In the second to fifth year inclusive	211	233
After five years	—	—
	351	455

Operating lease payments represent rentals payable by the Group for certain of its office properties and also for vehicle lease payments which expired in 2008 and the vehicles returned. Leases are negotiated for an average term of 5 years and rentals are fixed for an average term of 3 years.

24 Share-based payments

Equity-settled share-based payments

The Company operates a 2005 Enterprise Management Incentive Scheme ('2005 Scheme'), introduced in July 2005. Under this scheme the Board can grant options over shares in the Company to employees of the Group. The 2005 Scheme options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant with a contractual life of 10 years subject to continued employment.

The Company also operates a 2007 Enterprise Management Incentive Scheme ('2007 Scheme'), introduced in March 2007. The 2007 Scheme options are granted with an exercise price of 1.0 pence. These options may only be regarded as vested and exercisable once two conditions have been satisfied. The first condition is that an adjusted profit before tax target has to be satisfied to determine the number of earned option shares for each of the financial years ended 30 November 2007, 2008 and 2009. The second condition relates to the vesting periods of the earned option shares. The vesting period commences from whenever any particular options become earned and lasts for a period of two years. The contractual life of these options is 10 years subject to continued employment. Awards under the 2007 Scheme are generally reserved for employees at management level or above.

Details of the share options outstanding are as follows:

	2008 Number ('000)	*2008 Weighted average exercise price*	*2007 Number ('000)*	*2007 Weighted average exercise price*
Outstanding at 1 December	13,002	3.9p	8,095	7.3p
Granted	—	—	6,000	1.0p
Forfeited	(23)	31.3p	(394)	34.5p
Exercised	(53)	1.6p	(699)	1.7p
Outstanding at 30 November	12,927	3.8p	13,002	3.9p
Exercisable at 30 November	6,781	5.8p	6,852	5.8p

The weighted average share price (at the date of exercise) of options exercised during the year was 7.1p (2007 – 9.5p).

	2008				*2007*			
Range of Exercise price	*Weighted average exercise price*	*Number of shares ('000)*	*Weighted average remaining life Expected*	*Contractual*	*Weighted average exercise price*	*Number of shares ('000)*	*Weighted average remaining life Expected*	*Contractual*
1p – 2p	1.2p	11,576	3.1	7.6	1.2p	11,628	4.1	6.0
18 – 36p	26.2p	1,361	0.8	6.8	25.3p	1,374	1.9	7.8

For the period ended 30 November 2008 the Group has recognised a total expense of £23,000 (2007 – £173,000) related to equity-settled share-based payment transactions.

Options are valued using the Black-Scholes option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	2007
Share price at date of grant (pence)	9.2
Exercise price (pence)	1.0
Number of employees	9
Shares under option	6,000,000
Vesting period (years)	3
Option life (years)	10
Expected life (years)	5
Expected volatility	47%
Risk-free rate	4.5%
Expected dividends express as a dividend yield	—
Fair value per option (pence)	6.6

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life.

25 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are therefore not disclosed. The Directors are considered to be the key management personnel of the Group. Details of Directors' remuneration are given in the Remuneration Report on pages 1 to 3.

26 Transistion to EU IFRS

The accounting policies in note 1 have been applied in preparing the consolidated financial statements for the year ended 30 November 2008, the comparative information for the year ended 30 November 2007 and the preparation of the opening IFRS balance sheet at 1 December 2006 (the transition date). In preparing its opening balance sheet and comparative information the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP.

An explanation of the principal changes in accounting policies and how the transition from UK GAAP to IFRS has affected the Group's income statement and balance sheet is set out in the tables and accompanying notes below:

Goodwill

UK GAAP requires that amortisation of goodwill is charged to the profit and loss account on a straight-line basis over the useful economic life of the intangible asset. Under UK GAAP, the goodwill arising on the acquisitions of Voice Integrated Products Limited was being amortised over 10 years.

IFRS3 requires that goodwill arising from business combinations should not be amortised but tested annually for impairment. As permitted by IFRS1 the Group has decided to apply IFRS3 prospectively from the date of transition (1 December 2006#) and has elected not to restate previous business combinations.

Under IAS36 remaining goodwill is tested annually for impairment, unless there is any indication of impairment before that time.

The impact of this change has been to reverse amortisation charged in year ended 30 November 2007 relating to goodwill on the balance sheet at the date of transition, resulting in a credit to income of £1,099,000 and a corresponding increase in intangible fixed assets.

Employee benefits

Short-term employee benefits are payable within one year after the end of the period in which the services have been rendered and in accordance with IAS19 employee holiday pay owing at the end of a financial period is now being recorded as a current liability.

The impact of recording a holiday pay accrual has been to record an accrual of £99,000 within trade and other payables, together with an associated deferred tax asset of £28,000, in the 30 November 2007 balance sheet. This has resulted in a charge of £10,000 to cost of sales and £30,000 to operating expenses together with a deferred tax credit of £10,000 for the year ended 30 November 2007.

Deferred tax

Under IFRS deferred tax is provided in full using the balance sheet liability method, on the basis of temporary differences between the carrying value of assets and liabilities in the balance sheet and their tax bases used in the computation of taxable profit. Deferred tax assets are recognised only to the extent that it is probable that they can be utilised against future taxable profits. The principal items that result in adjustments to deferred tax between UK GAAP and IFRS are in respect of share-based payments.

The Company has taken advantage of the transitional relief in relation to share options granted pre-7 November 2002 and has recognised a share based payment charge under IFRS2. A deferred tax asset has nonetheless been recognised relating to these options.

The impact on the balance sheet at 30 November 2007 is to record a deferred tax asset of £6,000, of which £2,000 was utilised in the year ended 30 November 2007 and has been charged to retained earnings.

Computer software

Under UK GAAP, purchased software application licences and internally developed software which was not integral to hardware but was necessary for bringing the Group's computer hardware in to operation were classified as tangible fixed assets. Such licences or internally developed software are classified as intangible assets under IAS16 and IAS38.

There is no net impact on the income statement as a result of this reclassification. However, there has been a reclassification of amounts recorded as deprecation on these assets to amortisation charges. The impact on the balance sheets at 30 November 2007 has been an increase in intangible assets of £264,000 and a matching decrease in property, plant and equipment.

Cash flow statement

There are no material changes to the cash flow statement as a result of conversion to EU IFRSs other than presentational changes to the primary statements and its notes.

a) EU IFRS reconciliation of income statement for the year ended 30 November 2007

	UK GAAP £'000	*Reverse goodwill amortisation £'000*	*Holdiay pay accrual £'000*	*EU IFRS £'000*
Revenue	9,667	—	—	9,667
Cost of sales	(3,836)	—	(10)	(3,846)
Gross profit	5,831	—	(10)	5,821
Administrative expenses	(6,890)	1,099	(30)	(5,821)
(Loss)/profit from operations	(1,059)	1,099	(40)	—
Finance expense	(3)	—	—	(3)
Finance income	142	—	—	142
(Loss)/profit before tax	(920)	1,099	(40)	139
Tax credit	35	—	10	45
(Loss)/profit after tax	(885)	1,099	(30)	184

b) EU IFRS reconciliation of balance sheet as at 1 December 2006 (the transition date)

	UK GAAP £'000	*Reclassification of software £'000*	*Holiday pay accrual £'000*	*Deferred tax on IFRS 2 transitional relief £'000*	*EU IFRS £'000*
Assets					
Non-current assets					
Intangible assets	10,598	355	—	—	10,953
Property, plant & equipment	868	(355)	—	—	513
Deferred tax assets	—	—	—	3	3
Total non-current assets	11,466	—	—	3	11,469
Current assets					
Inventories	289	—	—	—	289
Trade & other receivables	1,741	—	—	—	1,741
Corporation tax receivable	8	—	—	—	8
Cash & cash equivalents	3,049	—	—	—	3,049
Total current assets	5,087	—	—	—	5,087
Total assets	16,553	—	—	3	16,556
Liabilities					
Current liabilities					
Trade & other payables	(3,831)	—	(60)	—	(3,441)
Corporation tax payable	—	—	—	—	—
Provisions	—	—	—	—	—
Total current liabilities	(3,831)	—	(60)	—	(3,441)
Non-current liabilities					
Provisions	(87)	—	—	—	(87)
Deferred tax liability	(23)	—	18	5	—
Total non-current liabilities	(110)	—	18	5	(87)
Total liabilities	(3,491)	—	(42)	5	(3,528)
Net assets	13,062	—	(42)	8	13,028
Capital & reserves					
Share capital	1,083	—	—	—	1,083
Share premium	6,798	—	—	—	6,798
Reverse acquisition reserve	506	—	—	—	506
Merger reserve	4,951	—	—	—	4,951
Retained earnings	(276)	—	(42)	8	(310)
Total equity	13,062	—	(42)	8	13,028

c) EU IFRS reconciliation of balance sheet as at 30 November 2007

	UK GAAP £'000	Reversal of goodwill amortisation £'000	Reclassification of software £'000	Holiday pay accrual £'000	Deferred tax on IFRS 2 transitional relief £'000	EU IFRS £'000
Assets						
Non-current assets						
Intangible assets	9,589	1,099	264	—	—	10,952
Property, plant and equipment	586	—	(264)	—	—	322
Deferred tax assets	39	—	—	28	6	73
Total non-current assets	10,214	1,099	—	28	6	11,347
Current assets						
Inventories	249	—	—	—	—	249
Trade & other receivables	2,245	—	—	—	—	2,245
Corporation tax receivable	33	—	—	—	—	33
Cash & cash equivalents	4,028	—	—	—	—	4,028
Total current assets	6,555	—	—	—	—	6,555
Total assets	16,769	1,099	—	28	6	17,902
Liabilities						
Current liabilities						
Trade & other payables	(4,223)	—	—	(99)	—	(4,322)
Corporation tax payable	—	—	—	—	—	-
Provisions	(60)	—	—	—	—	(60)
Total current liabilities	(4,283)	—	—	(99)	—	(4,382)
Non-current liabilities						
Provisions	(125)	—	—	—	—	(125)
Total non-current liabilities	(125)	—	—	—	—	(125)
Total liabilities	(4,408)	—	—	(99)	—	(4,507)
Net assets	12,361	1,099	——	(71)	6	13,395
Capital & reserves						
Share capital	1,090	—	—	—	—	1,090
Share premium	6,802	—	—	—	—	6,802
Reverse acquisition reserve	506	—	—	—	—	506
Merger reserve	4,951	—	—	—	—	4,951
Retained earnings	(988)	1,099	—	(71)	6	46
Total equity	12,361	1,099	—	(71)	6	13,395

27 Post balance sheet events

On 6 February 2009 the Company acquired 100% of the ordinary share capital of Eden Origin Ltd ("Eden"), trading as Datadialogs.

The consideration for the acquisition is £720,000 in cash subject to a net asset adjustment for completion accounts to be drawn up at 28 February 2009 plus directly attributable costs. In addition a contingent consideration of up to a further £200,000 is payable in cash on Eden achieving revenues within the first year of completion of up to £700,000. Up to a further

£2,800,000 is payable in a mixture of cash and shares over the two years post completion dependent on the achievement of revenue targets of between £1,560,000 to £10,000,000 over that period. Any new shares allotted as consideration will be priced based on the average mid-market price preceding issue subject to a minimum of 10p per share.

Due to the proximity between the date of the acquisition and the date of signing these financial statements it is has not been practical to prepare the acquisition balance sheet at fair value and consequently no such balance sheet is disclosed. In the year to 31 August 2008, Eden reported turnover of £520,000 and profit before tax of £120,000 and as at 31 August 2008 had net assets of £230,000.

Company balance sheet as at 30 November 2008

	Note	2008 £'000	2008 £'000	2007 £'000	2007 £'000
Fixed assets					
Investments	C		8,165		8,135
Current assets					
Debtors	D	115		315	
Cash at bank and in hand		2,789		1,658	
		2,904		1,973	
Creditors: amounts falling due within one year	E	(534)		(406)	
Net current assets			2,370		1,567
Total assets less current liabilities			10,535		9,702
Provisions for liabilities	F		(6)		(6)
Net assets			10,529		9,696
Capital and reserves					
Called up share capital	G, H		1,090		1,090
Share premium account	H		6,803		6,802
Profit and loss account	H		2,636		1,804
Shareholders' funds	H		10,529		9,696

The financial statements were approved by the Board of Directors and authorised for issue on 25 February 2009.

M.P. Neville
Non-Executive Chairman

J.A. Ormondroyd
Finance Director

The notes on pages 35 to 37 form part of these financial statements.

Notes to the company financial statements for the year ended 30 November 2008

A Accounting policies

Basis of accounting

The separate financial statements of the Company are presented as required by the Companies Act 1985.

They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

Investments

Fixed asset investments in subsidiary undertakings are shown at cost less provision for any impairment value. Where merger relief is available to be used, an investment in a subsidiary undertaking is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration.

Taxation

Current taxation is provided at amounts expected to be paid or recovered using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Share-based payments

The Company issues equity-settled share-based payments to certain employees and Directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. Fair value is measured by use of a Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the period as an increase to investment in subsidiary undertakings.

National Insurance on share options

To the extent that the share price at the balance sheet date is greater then the exercise price on employee share options, provision for any National Insurance contribution has been made based on the prevailing rate of National Insurance. The provision is accrued over the performance period attaching to the award.

Impairment of fixed assets

The carrying values of fixed assets are reviewed for impairment when a triggering event arises that indicates assets might be impaired. Impairment is assessed by comparing the carrying value of the asset against the higher of its realisable value and value in use. Any provision for impairment is charged to the profit and loss account in the year concerned.

B Profit for the financial year

As permitted by section 230 of the Companies Act 1985 the Company has elected not to present its own profit and loss account for the year. The Company reported a profit after tax for the financial year ended 30 November 2008 of £809,000 (2007 – £323,000).

The Auditor's remuneration for audit and other services is disclosed in note 6 to the consolidated financial statements.

The Company employed an average of 5 employees during the year (2007 – 4).

Disclosures on the remuneration of each individual Director are included in the remuneration report on page 2. The only staff costs of the Company are the Directors

C Fixed asset investments

	2008 *£'000*	*2007* *£'000*
Investment in Group undertakings	8,165	8,135

	£'000
Analysed as:	
Cost at 1 December 2007	8,135
Additions – share option granted to subsidiary employees	30
Cost at 30 November 2008	8,165

The Company's subsidiaries at the year end were Telephonetics VIP Limited, which provides automated speech recognition and computer telephony solutions in the UK, and Voice Integrated Products Ltd, a dormant company. Both of which are incorporated in England and Wales and of which the Company holds 100% of the voting and ordinary share capital.

D Debtors

	2008 *£'000*	*2007* *£'000*
Amounts owed to Group undertakings	6	224
Deferred tax asset	69	72
Other debtors	34	13
Prepayments and accrued income	6	6
	115	315

E Creditors: amounts falling due within one year

	2008 *£'000*	*2007* *£'000*
Trade creditors	30	19
Amounts owed to Group undertakings 1	41	145
Corporation tax	16	8
Other taxation and social security	18	17
Other creditors	30	34
Accruals and deferred income	299	183
	534	406

F Provisions for liabilities and charges

	National Insurance on share options £'000
At 1 December 2007 and 30 November 2008	6

The final liability to National Insurance on share options is dependent on factors concerning the market price of the Company's shares at the date of exercise, the number of options that will be exercised and the prevailing rate of National Insurance at the date of exercise.

G Called-up share capital

	2008 Number of ordinary shares	2008 Nominal value £'000	2007 Number of ordinary shares	2007 Nominal value £'000
Authorised				
Ordinary shares of 1p each	300,000,000	3,000	300,000,000	3,000
Deferred shares of 1p each	50,000,000	500	50,000,000	500
	350,000,000	3,500	350,000,000	3,500
Allotted, called up and fully paid				
Ordinary shares of 1p each				
Ordinary share of 1p each	109,025,334	1,090	108,952,557	1,090

H Combined reconciliation of movements in shareholders' funds and statement of movement on reserves

	Share capital £'000	Share premium account £'000	Profit and loss account £'000	Total £'000
At 1 December 2007	1,090	6,802	1,804	9,696
Profit for the period	—	—	809	809
Share-based payment credit	—	—	23	23
Issue of share capital	—	1	—	1
At 30 November 2008	1,090	6,803	2,636	10,529

I Related party transactions

The Company has taken advantage of the exemption which is conferred by Financial Reporting Standard No. 8, Related Party Disclosures, which allows it not to disclose transactions with other Group undertakings that are 90% or more owned by the Group. There were no other related party transactions during the year.

J Ultimate controlling party

Telephonetics plc is incorporated and registered in England and Wales and heads the largest group for which consolidated financial statements are prepared.

Telephonetics plc – Audited Financial Statements
for the year ended 30 November 2007
Business Review

Overview

The Group made good progress in 2007 expanding its customer base and sales & marketing resources and at the same time delivering operational efficiencies.

Group turnover was £9.67m, an increase of 48%, (2006: £6.51m). EBITDA was £0.993m (2006: £0.742m) before exceptional items and share option expenses, an increase of 26%; which at a margin of 10% of total turnover was inline with 2006's margin despite significant upfront investment in expanding sales & marketing (see note 4 of the financial statements for a reconciliation of this measure to statutory captions). This translated into an operating cash inflow of £1.07m (2006: £0.644m) putting the Group in a good cash position, with increased net funds of £4.03m (2006: £3.05m). EBITDA before exceptional items and share option expenses is a performance measure used internally by management to manage the operations of the business and removes the impact of one off and non-cash items (see note 4 of the financial statements for a reconciliation of this measure to statutory captions).

Profit before tax before intangible asset amortisation, share option expenses and exceptional items was up 16% to £0.677m (2006: £0.583m) (this is a measure used externally by research analysts and is the basis for the market expectations of Telephonetics' profit for the year. See note 4 of the financial statements for a reconciliation of this measure to statutory captions). An increase in goodwill amortisation to £1.10m (2006: £0.458m) and restructuring expenses of £0.291m (2006: £0.295m) resulted in loss before tax and loss per share of £0.92m (2006: £0.316m) and 0.81 pence (2006: 0.29 pence) respectively.

Market & Strategy

The speech recognition and voice automation solutions market in the UK, though still in an early phase of its development, has continued to generate significant customer interest. This has been assisted by several factors, which when combined suggests that there are significant opportunities to be exploited. These include: increased customer acceptance of such automated solutions, with improved delivery, increased customer satisfaction and higher cost savings; foreign call centres no longer being in favour, with many companies are now moving such units back to the UK, and at the same time continuing to look for new ways to improve service, whilst reducing costs; and voice biometrics increasingly seen as a key tool to providing enhanced automation and security to organisations.

Telephonetics' business model of building off-the-shelf solutions with the above benefits, and geared to specific markets, continues to be a popular proposition. Our strategy is to continue focusing on expanding our customer base with our suite of applications, which run on our fully-scalable premises-based and hosted platforms, and leveraging our existing customer base through sale of incremental product features and additional applications. In addition, we are enhancing our hosted offering to allow customers with one of our premises-based platforms the ability to use our network based call routing and self service facilities on demand.

Development and performance of the business

Turnover

The table below sets out an analysis of turnover by product:

	2007 *£'m*	*2006* *£'m*
Hosed Solutions	3.68	3.61
Premises-based Solutions	2.56	1.53
Service & Maintenance	3.43	1.37
	9.67	6.51

Hosted Solutions

Turnover from Hosted Solutions increased 2% to £3.68m (2006: £3.61m). Turnover is principally derived from our MovieLine® product, which is used by 80% of the UK's major multiplex cinemas (2006: 80%). A decrease in call volumes over the platform of 7% to 27.7m minutes for the year (2006: 29.8m) was offset by improved telecoms rates and other service fees.

Premises-based Solutions

The sales of our speech recognition and voice automation premises based systems and associated services, covering the call centre, corporate, health and public sector, increased by 67% to £2.56m (2006: £1.53m). This included significant contract wins with new customers such as Vanco, London Fire & Emergency Planning Authority, HM Treasury, New Forest District Council and Nabarro.

Service & Maintenance

Service and maintenance revenues are important to the Group as they not only provide contractually recurring revenues but also reduce the cost of sale of additional applications to existing customers. This provides a solid foundation for the Group's future financial performance.

Service and maintenance revenues are now a significant element of the business mix at 36% of turnover (2006: 21%) having increased by £2.06m to £3.43m (2006: £1.37m). This was the result of new premises-based solution sales, the acquisition of VIP's customer base in July 2006 and expanded service offerings. The total number of deployments under contract at the year end was 540 (2006: 500) an increase of 8%.

Gross margin

Gross margins were improved at 60% (2006: 57%), which was the result of higher margin services & maintenance work, constituting a higher proportion of sales, and combined with the realisation of certain supply chain and service efficiencies.

Development costs

The Group continues to invest in its product development with total development expenditure including capitalised amounts increasing by 5% to £0.626m (2006: £0.597m).

Our SEMAP+ platform and portfolio products continue to be enhanced to ensure that they retain their current strong position in the market. Examples include, DialogueBuilder, which is an advanced web based tool that enables the rapid deployment of customised speech and Touch-Tone automated applications, and core speaker verification technology that allows full automation of caller authentication. Telephonetics is well placed to take advantage of the increasing penetration of Voice Over IP ('VoIP') PBXs in the market place. ContactPortal® has now successfully been tested against the latest Call Manager from Cisco as well as the new Siemens 8000 IP PBX.

A new scalable and resilient mass outbound calling capability has been added to our platform enabling rapid message delivery to vast numbers of recipients. The solution is flexible enough to satisfy customer demands, ranging from emergency notification and command and control, through to client interaction in the financial services space. One of our first products that uses this new technology is our recently released Remind+, an automated notification solution that allows organisations, such as the NHS, to contact people and automatically remind them of an appointment in the near future. The system logs their spoken responses and enabling unused slots to be speedily reallocated.

Sales & Marketing costs

A key objective for 2007 was to expand sales & marketing capabilities through greater investment in the direct sales team, indirect channel and product marketing. This has successfully started and is beginning to payoff in the top-line numbers.

Expenditure on sales and marketing increased by 157% to £3.16m (2006: £1.23m) as we expanded the team responsible for sales management, direct and indirect sales, telemarketing, sales operations, product marketing and marketing communications expanding from around 18 employees in 2006 to 40 during the period.

Product management has, in particular, become a much more rigorous discipline within the business and is now producing regularly updated product roadmaps along with sales collateral, and support aids to maximise the support for the front line sales team.

Administrative expenses

We continued to invest in improving internal processes in Human Resources, Sales, Product Management, IT, Finance and Administration, not only to improve our efficiency but also our management information and controls. General and administrative expenses were up 4% to £1.58m before goodwill amortisation, exceptional items and share option expenses. This is an improved ratio of 16% of sales (2006: 23%) and is the result of tighter cost control and operational leverage.

EBITDA

EBITDA before exceptional items and share option expenses of £0.933m (2006: £0.742m) was generated in the period, which at 10% is inline with 2006's margins, and is impressive given the upfront investment in the growth of the sales and marketing resources, which were compensated by back office efficiencies. A definition of EBITDA and reconciliation to statutory captions is set out in note 4 of the financial statements.

Exceptional and non-cash items

The amortisation charge of £1.10m relates to the amortisation of the goodwill arising on the acquisition of Voice Integrated Products Ltd. In addition there was £0.291m of restructuring costs in relation to its final integration within the Group.

Business risks

When the Board considers business risks going forward, the prominent risks include our dependence on people, the speech recognition and voice automation market, intellectual property and information technology.

Dependence on people: The Group recognises the value of their commitment and is conscious that we must keep the reward systems, both financial and motivational, in place to minimise this area of risk. Our share option schemes and investments in training are examples of this.

Speech recognition and voice automation market: The sector in which the Group operates may undergo rapid and unexpected changes or not develop at a pace in line with the Board's expectations. It is possible therefore that either competitors will develop products similar to the Group or its technology may become obsolete or less effective. The Group's success depends upon its ability to enhance its products and technologies and develop and introduce, on a timely and cost effective basis, new products and features that meet changing customer requirements and incorporate technological advancements. As a result the Group continues to invest significantly in product marketing and research and development.

Intellectual property: The activities of the Group are in a large part reliant on intellectual property rights surrounding its internally generated and licensed-in software. In addition, the Group is aware of the supply risk of losing key software partners. This would have a short-term impact as we sought to identify and then train our staff in a suitable alternative product. We have an excellent record of maintaining good relationships with our software partners and usually get notice of impending changes in time to minimise the impact.

Information technology: Data security and business continuity pose inherent risks for the Group. The Group is ISO 9000 accredited, which has been independently audited. In addition, the Group invests in and keeps under review formal data security and business continuity policies. For example, the Group is upgrading its hosted platform to comply with PCI DSS.

Financial position

Treasury policy and financial risk

The funding and treasury functions of the Group are managed under guidelines approved by the Board. The treasury positions are managed in a non-speculative manner and the Group does not enter into derivative instruments. The main financial risks faced by the Group are credit risk and funding risk. The Board continually reviews the funding requirements of the Group and its exposure to liquidity risk. The Group's principal credit risk relates to the recovery of amounts owed by trade debtors most of which are blue chip corporate or public sector authorities. This risk is controlled by following established policies which includes setting credit limits, aged debt reviews and active collection procedures.

The Group's cash deposits remain available on demand and accrue interest at floating rates. Net interest income for the Group increased to £0.139m (2006: £0.105m) due to higher average cash holdings in 2007 as a result of operating cash inflows during the period.

Taxation

The Group benefited from a tax credit of £35,000 (2006: £92,000) as a result of deductions for share option expenses and utilisation of brought forward losses partially offset by decelerating capital allowances.

Cash flows

Net funds increased by £0.979m to £4.03m from £3.05m at the beginning of the year. The Group benefits from a favourable operating cash flow model and generated operating cash inflows of £1.07m during the year (2006: £0.644m).

The Group's operations are relatively capital light with capital expenditure during the year totalling £238,000 (2006: £272,000) primarily incurred for development of an expanded product portfolio and technology enhancements to its hosted speech call processing platform and head office operations.

Dividend

The directors are seeking capital growth for shareholders and accordingly the Board does not currently envisage paying a dividend in the short term.

Report of the Independent Auditors

To the shareholders of Telephonetics Plc

We have audited the Group and Parent Company financial statements (the ''financial statements'') of Telephonetics plc for the year ended 30 November 2007 which comprise the consolidated profit and loss account, the statement of Group total recognised gains and losses, the consolidated and Company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also 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 the other information contained in the report and consider whether it is consistent with the audited financial statements. The other information comprises only the Report of the Directors, Chairman's statement, business review, corporate governance statement and remuneration report. 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 judgements 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 Group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 30 November 2007 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 30 November 2007;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and

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

BDO STOY HAYWARD LLP
Chartered Accountants and Registered Auditors, London
20 February 2008

Consolidated profit and loss account for the year ended 30 November 2007

	Note	*2007* *£'000*	*2006 (restated)[1]* *£'000*
Turnover	2	9,667	6,512
Cost of sales		(3,836)	(2,809)
Gross profit		5,831	3,703
Operating expenses	3	(6,890)	(4,124)
Operating loss	4	(1,059)	(421)
Operating loss analysed as:			
Operating profit before exceptional items, goodwill amortisation and share option expenses		504	458
Goodwill amortisation	4	(1,099)	(458)
Exceptional acquisition and restructuring costs	4	(291)	(295)
Share option expenses	4	(173)	(126)
		(1,059)	(421)
Bank interest receivable		142	108
Bank interest payable		(3)	(3)
Loss on ordinary activities before taxation		(920)	(316)
Taxation	7	35	92
Loss on ordinary activities after taxation		(885)	(224)
Loss per share (pence)			
Basic & Diluted	9	(0.81)	(0.29)

(1) see note 29 for details of prior period restatement.

All amounts relate to continuing operations. The notes on pages 12 to 28 form part of these financial statements.

Statement of Group total recognised gains and losses for the year ended 30 November 2007

	Note	*2007* *£'000*	*2006 (restated)[1]* *£'000*
Loss for the financial year		(885)	(224)
Total recognised losses for the year		(885)	(224)
Prior year adjustment	29	33	
Total losses recognised since last Report last Financial Statements		(852)	

(1) see note 29 for details of prior period restatement.

Consolidated balance sheet as at 30 November 2007

	Note	*2007* *£'000*	*2007* *£'000*	*2006 (restated)*[1] *£'000*	*2006 (restated)*[1] *£'000*
Fixed assets					
Intangible assets	11		9,589		10,598
Tangible assets	12		586		868
			10,175		11,466
Current assets					
Stocks	14	249		289	
Debtors	15	2,317		1,749	
Cash at bank and in hand		4,028		3,049	
		6,594		5,087	
Creditors: amounts falling due within one year	16	(3,908)		(3,165)	
Net current assets			2,686		1,922
Total assets less current liabilities			12,861		13,388
Creditors: amounts falling due after more than one year	17		(315)		(216)
Provisions for liabilities	19		(185)		(110)
Net assets			12,361		13,062
Capital and reserves					
Called up share capital	20		1,090		1,083
Share premium account	21		6,802		6,798
Reverse acquisition reserve	21		506		506
Merger reserve	21		4,951		4,951
Profit and loss account	21		(988)		(276)
Shareholders' funds	22		12,361		13,062

(1) see note 29 for details of prior period restatement.

The financial statements were approved by the Board of Directors and authorised for issue on 20 February 2008.

M. P. Neville — **Non-Executive Chairman**

J. A. Ormondroyd — **Finance Director**

The notes on pages 12 to 28 form part of these financial statements.

Company balance sheet as at 30 November 2007

	Note	2007 £'000	2007 £'000	2006 (restated)[1] £'000	2006 (restated)[1] £'000
Fixed assets					
Investments	13		8,135		7,972
Current assets					
Debtors	15	315		610	
Cash at bank and in hand		1,658		1,004	
		1,973		1,614	
Creditors: amounts falling due within one year	16	(406)		(387)	
Net current assets			1,567		1,227
Total assets less current liabilities			9,702		9,199
Provisions for liabilities	19		(6)		(10)
Net assets			9,696		9,189
Capital and reserves					
Called up share capital	20		1,090		1,083
Share premium account	21		6,802		6,798
Profit and loss account	21		1,804		1,308
Shareholders' funds	22		9,696		9,189

(1) see note 29 for details of prior period restatement.

The financial statements were approved by the Board of Directors and authorised for issue on 20 February 2008.

M. P. Neville
Non-Executive Chairman

J. A. Ormondroyd
Finance Director

The notes on pages 12 to 28 form part of these financial statements.

Consolidated cash flow statement for the year ended 30 November 2007

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
Net cash inflow from operating activities	26		1,066		644
Returns on investments and servicing of finance					
Interest received		142		108	
Interest paid		(3)		(3)	
Net cash inflow from returns on investments and servicing of finance			139		105
Taxation					
UK corporation tax paid			—		(52)
Capital expenditure and financial investment					
Payments to acquire tangible fixed assets		(114)		(231)	
Payments to acquire intangible fixed assets		(124)		(41)	
Net cash outflow from capital expenditure and financial investment			(238)		(272)
Acquisitions and disposals					
Acquisition of subsidiary undertaking		—		(6,349)	
Cash received with acquisition		—		1,156	
Net cash outflow from acquisition and disposals			—		(5,193)
Cash inflow/ (outflow) before financing			967		(4,768)
Financing					
Issue of ordinary share capital		—		5,250	
Expenses paid in connection with share issue		—		(284)	
Exercise of share options		12		17	
Cash inflow from financing			12		4,983
Increase in cash	27		979		215

The notes on pages 12 to 28 form part of these financial statements.

Notes forming part of the financial statements for the year ended 30 November 2007

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with United Kingdom accounting standards.

The Group has applied the requirements of FRS 20 "Share-Based Payments". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 December 2006. This has resulted in a prior year restatement which is detailed in note 29.

The following principal accounting policies have been applied:

Basis of consolidation

The consolidated financial statements incorporate the results of Telephonetics Plc and all of its subsidiary undertakings as at 30 November 2007 using the acquisition method of accounting. Where the acquisition method is used, the results of subsidiary undertakings are included from the date of acquisition.

Where an acquisition qualifies for merger relief, the investment is recorded in the Company's balance sheet at the nominal value of the shares issued, together with the fair value of any additional consideration paid. The difference between the nominal value and fair value of shares issued is recorded as a merger reserve.

On 7 July 2005, Telephonetics VIP Ltd acquired the Telephonetics Plc (then named Leptis Magna Plc) via the reverse acquisition method. Under the requirements of the Companies Act 1985 it would normally be necessary for the Group's consolidated accounts to follow the legal form of the business combination. In that case the pre-combination results would be included within the Group from 7 July 2005. However, this would portray the combination as an acquisition of Telephonetics VIP Ltd by Telephonetics Plc, a cash shell at that time, and would, in the opinion of the Directors, fail to give a true and fair view of the substance of the business combination. As a result the Directors invoked the true and fair override and adopted reverse acquisition accounting as the basis of consolidation for the acquisition of Telephonetics VIP Ltd.

The effect on the consolidated financial statements of adopting reverse acquisition accounting, rather than the legal form, is widespread. However, the following table indicates the principal effect on the composition of the reserves.

30 November 2007	*Reverse acquisition accounting (as disclosed)* *£'000*	*Normal acquisition accounting* *£'000*	*Impact of reverse acquisition accounting* *£'000*
Share capital	1,090	1,090	—
Share premium	6,802	6,802	—
Reverse acquisition reserve	506	—	506
Merger reserve	4,951	20,118	(15,167)
Profit and loss account	(988)	(7,477)	6,489

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the Directors' estimate of its useful economic life, in the case of Voice Integrated Products Ltd 10 years. Impairment tests on the carrying value of goodwill are undertaken.

- at the end of the first full financial year following acquisitions; and
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Turnover

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and VAT. The Group provides hosted and customer installed automated speech recognition and computer telephony solutions. Turnover in respect of:

- hosted telephony call revenues are recognised when the call is made over the Group's network.
- goods and professional services are recognised when the good or service has been delivered to the customer; and
- maintenance service contracts are recognised evenly over the period in which the service is provided to customers.

Depreciation

Depreciation is provided to write off the cost, less estimated residual values, of all tangible fixed assets evenly over their expected useful lives. It is calculated at the following rates:

Fixtures, fittings and equipment	33% per annum
Computer equipment and software	14 – 33% per annum
Motor vehicles	25% per annum

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is calculated as the cost of purchase on a first in, first out basis and net realisable value is based on estimated selling price less further costs to completion and disposal.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the profit and loss account.

Research and development

Expenditure on pure and applied research is charged to the profit and loss account in the year in which it is incurred.

Development costs are also charged to the profit and loss account in the year of expenditure, unless individual projects satisfy all of the following criteria:

- the project is clearly defined and related expenditure is separately identifiable;
- the project is technically feasible and commercially viable;
- current and future costs are expected to be exceeded by future sales; and
- adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period not exceeding three years commencing in the year the Group starts to benefit from the expenditure.

Deferred taxation

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and laws. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leased assets

Annual rentals under operating leases are charged to the profit and loss account on a straight-line basis over the term of the lease.

Pension costs

Contributions to the Group's defined contribution pension scheme and employee's personal pension plans are charged to the profit and loss account in the year in which they become payable.

Share based payments

The Group issues equity-settled share based payments to certain employees and directors. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Fair value is measured by use of a Black-Scholes or Monte Carlo models as appropriate. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

When shares and share options are granted to employees of subsidiary companies, the fair value of the awards is treated as a capital contribution in the holding company's balance sheet and spread over the period of performance relating to the grant. The corresponding entry is made in the holding company's reserves.

National insurance on share options

To the extent that the share price at the balance sheet date is greater then the exercise price on employee share options, provision for any National insurance contribution has been made based on the prevailing rate of national insurance. The provision is accrued over the performance period attaching to the award.

Impairment of fixed assets

The carrying values of fixed assets are reviewed for impairment when a triggering event arises that indicates assets might be impaired. Impairment is assessed by comparing the carrying value of the asset against the higher of its realisable value and value in use. Any provision for impairment is charged to the profit and loss account in the year concerned.

Investments and Merger relief

Investments in subsidiary undertakings are shown at cost less provision for any impairment value. Where merger relief is available to be used, an investment in a subsidiary undertaking is recorded in the Company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration.

2 Segmental analysis

All turnover is attributable to the principal activity of the Group and originates in the UK.

	2007	*2006*
	£'000	*£'000*
Analysis of geographical market by destination:		
UK	9,525	6,496
Europe	142	16
	9,667	6,512

3 Operating expenses

	Note	2007 £'000	2006 (restated) £'000
Operating expenses are analysed as:			
Research and development		592	496
Sales and marketing		3,158	1,231
General and administration		3,140	2,397
Analysed as:			
General and administration before exceptional items, goodwill amortisation and share option expenses		1,577	1,518
Goodwill amortisation		1,099	458
Share option charges		173	126
Exceptional restructuring and acquisition expenses	4	291	295
		3,140	2,397
		6,890	4,124

4 Operating loss

	2007 £'000	2006 (restated) £'000
This is arrived at after charging:		
Research and development current year's expenditure	592	496
Research and development amortisation of capitalised expenditure	34	20
Depreciation	394	263
Loss on disposal of tangible fixed assets	1	1
Amortisation of goodwill	1,099	458
Operating lease rentals for land and buildings	171	140
Operating lease rentals for equipment	53	30
Exceptional restructuring and acquisition expenses [1]	291	295
Fees payable to the Company's auditors for the audit of the Company's accounts	14	14
Fees payable to the Company's auditors and its associates for other services:		
– audit of company's subsidiaries pursuant to legislation	34	41
– other services pursuant to legislation	5	5
– other services provided[2]	—	45

(1) The Company has incurred £291,000 (2006: £295,000) of expenses in relation to the final integration restructuring of Voice Integrated Products Ltd, which was acquired in July 2006. Expenses include £147,000 of provisions for vacant premises (see note 19) and £144,000 of redundancy costs (2006: professional fees in connection with pre-acquisition investigation and post acquisition restructuring of £91,000, redundancy costs of £119,000 and transaction related emoluments of £85,000).

(2) Auditors' non-audit services remuneration in 2006 related to financial due diligence fees in connection with the acquisition of Voice Integrated Products Ltd.

Reconciliation of operating loss to EBITDA before exceptional items and share option charges:

	2007 £'000	2006 (restated) £'000
Operating loss	(1,059)	(421)
Share option charges	173	126
Exceptional restructuring and acquisition expenses	291	295
Depreciation	394	263
Loss on disposal of tangible fixed assets	1	1
Amortisation of intangible fixed assets	34	20
Goodwill amortisation	1,099	458
EBITDA before exceptional items and share option charges	933	742

Reconciliation of loss before tax to adjusted profit before tax:

	2007 £'000	2006 (restated) £'000
Loss before tax	(920)	(316)
Share option charges	173	126
Exceptional restructuring and acquisition expenses	291	295
Amortisation of intangible fixed assets	34	20
Goodwill amortisation	1,099	458
Adjusted profit before tax	677	583

Adjusted profit before tax and EBITDA before exceptional items and share option charges has been presented to provide additional information to the reader.

5 Employees

	Note	Group 2007 £'000	Group 2006 (restated) £'000	Company 2007 £'000	Company 2006 (restated) £'000
Staff costs (including Directors) consist of:					
Wages and salaries		3,660	1,988	493	440
Social security costs		496	266	60	54
Pension costs		191	101	60	49
Exceptional redundancy costs	4	144	119	—	—
		4,491	2,474	613	543

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

	Group 2007 Number	Group 2006 Number	Company 2007 Number	Company 2006 Number
Operations	24	13	—	—
Research and development	11	11	—	—
Sales and marketing	40	18	—	—
General and administration	17	15	4	5
	92	57	4	5

Pensions

The Group operates a stakeholder pension scheme and a defined contribution Group personal pension scheme on behalf of the employees of the subsidiary undertakings and where contracted contributes to individual employee personal pension schemes. The assets in the pension schemes are held separately from those of the Group in an independently administered fund. The pension charge represents contributions payable by the Group across all arrangements and amounted to £191,000 (2006 : £101,000). Contributions totalling £18,000 (2006 : £13,000) were payable at the year end and are included in other creditors.

6 Directors' remuneration

	2007 £'000	2006 £'000
Aggregate emoluments	558	616
Company contributions to money purchase pension schemes	60	55
	618	671

The Group made contributions to three Directors' own money purchase pension schemes in 2007 totalling £60,000 (2006 : £55,000). Further disclosures on the remuneration of each individual director are included in the remuneration report. The highest paid director received a contribution to a money purchase pension scheme of £20,000 (2006: £21,000).

7 Taxation on loss on ordinary activities

	2007 £'000	2006 (restated) £'000
UK corporation tax (charge)/ credit on profits for the year	(27)	61
Deferred tax credit on timing differences reversing the UK	62	31
Tax credit on loss on ordinary activities	35	92

The tax assessed for the year differs from that obtained by applying the standard rate of corporation tax in the UK. The differences are explained below:

	2007 £'000	2006 (restated) £'000
Loss on ordinary activities before tax	(920)	(316)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006 : 30%)	(276)	(95)
Effects of:		
Share option expenses	52	38
Goodwill amortisation not deductible for tax purposes	330	137
Deduction for share options exercised	(16)	(61)
Utilisation of losses	(80)	(61)
Marginal rate relief	(14)	—
Research and development tax credit	(23)	(13)
Deferred research and development expenses	(37)	(68)
Decelerated capital allowances	67	52
Disallowed expenses	24	10
Current tax (credit)/ charge for year	27	(61)

8 Dividends

	2007 £'000	2006 £'000
Ordinary £nil (2006 : £nil) per share	—	—

9 Earnings per share

Earnings per ordinary share have been calculated using the weighted average number of shares in issue during the relevant financial periods. The weighted average number of equity shares in issue is 108,760,169 (2006 : 77,736,627) and the earnings, being restated loss after tax are £885,000 (2006 : £224,000).

Adjusted basic and adjusted diluted earnings per share have been calculated to exclude the effect of goodwill amortisation, share option expenses and exceptional items. The Directors believe that this gives a view of earnings consistent with profit measures used by management to run the business on a day to day basis.

	Note	2007 £'000	2006 (restated) £'000
Reconciliation of losses:			
Losses used for calculation of basic and diluted earnings per share		(885)	(224)
Goodwill amortisation		1,099	458
Share option expenses		173	126
Exceptional acquisition and restructuring costs	4	291	295
Earnings used for calculation of adjusted basic and diluted EPS		678	655

	Number	Number
Reconciliation of denominator:		
Shares used for calculation of basic and diluted earnings per share	108,760,169	77,736,627
Exercise of options	8,364,080	4,855,354
Shares used for calculation of adjusted diluted EPS	117,124,249	82,591,981

	Pence	Pence
Adjusted EPS	0.62	0.84

10 Profit for the financial year

The Company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The Group profit for the year includes a profit after tax of £323,000 (2006 (restated) : £1,035,000), which is dealt with in the financial statements of the Parent Company.

11 Intangible assets

Group	*Goodwill*	*Development costs*	*Total*
	£'000	*£'000*	*£'000*
Cost			
At 1 December 2006	13,036	88	13,124
Additions	—	124	124
At 30 November 2007	13,036	212	13,248
Amortisation			
At 1 December 2006	2,501	25	2,526
Provided for year	1,099	34	1,133
At 30 November 2007	3,600	59	3,659
Net book value			
At 30 November 2007	9,436	153	9,589
At 30 November 2006	10,535	63	10,598

12 Tangible fixed assets

Group	*Fixtures, fittings and equipment £'000*	*Computer equipment and software £'000*	*Motor vehicles £'000*	*Total £'000*
Cost				
At 1 December 2006	368	1,285	4	1,657
Additions	32	82	—	114
Disposals	—	(1)	(4)	(5)
Transfers to current assets	—	(6)	—	(6)
At 30 November 2007	400	1,360	—	1,760
Accumulated Depreciation				
At 1 December 2006	264	524	1	789
Charge for the year	81	311	2	394
Disposals	—	(1)	(3)	(4)
Transfer to current assets	—	(5)	—	(5)
At 30 November 2007	345	829	—	1,174
Net book value				
At 30 November 2007	55	531	—	586
At 30 November 2006	104	761	3	868

13 Fixed asset investments

Company	*Investment in Group undertakings (restated) £'000*
At 1 December 2006	7,972
Additions	163
At 30 November 2007	8,135

The Company's subsidiaries at the year end were Telephonetics VIP Limited (formerly Telephonetics Interactive Voice Systems Ltd), which provide automated speech recognition and computer telephony solutions in the UK, and Voice Integrated Products Ltd, a dormant company. Both of are incorporated in England and Wales and of which the Company holds 100% of the voting and ordinary share capital.

14 Stocks

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Goods for resale	199	263	—	—
Work in progress	50	26	—	—
	249	289	—	—

15 Debtors

	Note	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 (restated) £'000
Trade debtors		1,537	653	—	—
Amounts owed by Group undertakings		—	—	224	517
Corporation tax		33	8	—	—
Deferred tax asset	19	39	—	72	73
Other debtors		25	20	13	12
Prepayments and accrued income		683	1,068	6	8
		2,317	1,749	315	610

All amounts shown under debtors fall due for payment within one year.

16 Creditors: amounts falling due within one year

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Trade creditors	590	655	19	9
Amounts owed to Group undertakings	—	—	145	153
Corporation tax	—	—	8	—
Other taxation and social security	441	166	17	13
Other creditors	98	64	34	36
Accruals and deferred income	2,779	2,280	183	176
	3,908	3,165	406	387

17 Creditors: amounts falling due after more than one year

	Group 2007 £'000	Group 2006 £'000	Company 2007 £'000	Company 2006 £'000
Deferred income(1)	315	216	—	—

(1) Deferred income bears no interest and represents maintenance contact revenues billed in advance for the period up to December 2012.

18 Financial Instruments

The Business review on pages 1 to 4 set out details of the Group's treasury and financial risk management policy. Short term debtors and creditors have been excluded from all the following disclosures other than the currency risk disclosures.

Interest rate profile

Floating rate financial assets of £4,028,000 (2006 : £3,049,000) comprise sterling cash deposits in current accounts or on short term deposits.

Borrowing facilities

The Group has no committed borrowing facilities at 30 November 2007 (2006 : £nil).

Fair value of financial assets and liabilities

In the Directors' opinion there is no material difference between the book value and current value of any of the Group's financial assets or liabilities (2006 : £nil).

Currency profile, hedges and exposure

The Group's financial assets are denominated in sterling and there were no significant net foreign currency monetary assets or liabilities at the balance sheet date (2006 : £nil). The Group has no material hedged transactions or positions in the period (2006 : £nil).

19 Provision for liabilities

Group	*NI on share options*[(1)]	*Property provisions*[(2)]	*Deferred tax provision (restated)*	*Total (restated)*
	£'000	*£'000*	*£'000*	*£'000*
At 1 December 2006	10	77	23	110
(Utilised) / charged to profit and loss account	(4)	102	(23)	75
At 30 November 2007	6	179	—	185

Company	*NI on share options*[(1)]
	£'000
At 1 December 2006	10
Released to profit and loss account	(4)
At 30 November 2007	6

(1) The final liability to National Insurance on share options is dependent on factors concerning the market price of the Company's shares at the date of exercise, the number of options that will be exercised and the prevailing rate of National Insurance at the date of exercise.

(2) A dilapidation provision for the estimated costs of restoring the Group's leasehold properties at lease terms, to the condition in which they were originally leased has been established. In addition, on 1 April 2007 the Group vacated a number of leasehold properties in Poole, inherited with the acquisition of Voice Integrated Products Ltd, a provision of £147,000 has been made in the year for the residual lease commitments, together with outgoings, after taking into account estimated possible sub-let income.

Deferred taxation

	2007 £'000	2006 (restated) £'000
Group deferred taxation provided in the financial statements comprises:		
Accelerated capital allowances	(33)	(114)
Intangible assets claimed in full	(40)	—
Share option expenses asset	100	97
Net other timing differences	12	2
Group deferred tax asset / (provision)	39	(15)

The Group has an unprovided deferred tax asset of £143,000 relating to trading losses carried forward within the trade of Voice Integrated Products Ltd (2006 : £148,000).

The Company had deferred tax assets totalling £72,000 (2006 (restated) : £73,000) arising mainly due to timing differences in respect of share based payment charges. The Company has no unprovided deferred tax (2006 : £nil).

20 Share capital

	2007		2006	
	Number of ordinary shares	Nominal value £'000	Number of ordinary shares	Nominal value £'000
Authorised				
Ordinary shares of 1p each	300,000,000	3,000	300,000,000	3,000
Deferred shares of 1p each	50,000,000	500	50,000,000	500
	350,000,000	3,500	350,000,000	3,500
Allotted, called up and fully paid				
Ordinary shares of 1p each	108,972,557	1,090	108,273,781	1,083
Deferred share of 1p each	—	—	—	—
	108,972,557	1,090	108,273,781	1,083

	Ordinary shares of 1p each Number	£'000
In issue at 1 December 2006	108,273,781	1,083
6 December 2006 – issue of new ordinary shares of 1p each pursuant to the Telephonetics plc Enterprise Management Incentive Scheme	31,490	1
9 March 2007 – issue of new ordinary shares of 1p each pursuant to the Telephonetics plc Enterprise Management Incentive Scheme	327,046	3
4 April 2007 – issue of new ordinary shares of 1p each pursuant to the Telephonetics plc Enterprise Management Incentive Scheme	308,751	3
30 April 2007 – issue of new ordinary shares of 1p each pursuant to the Telephonetics plc Enterprise Management Incentive Scheme	10,555	—
3 July 2007 – issue of new ordinary shares of 1p each pursuant to the Telephonetics plc Enterprise Management Incentive Scheme	10,555	—
4 October 2007 – issue of new ordinary shares of 1p each pursuant to the Telephonetics plc Enterprise Management Incentive Scheme	10,379	—
In issue at 30 November 2007	108,972,557	1,090

Potential issues of ordinary shares

Certain employees held options to subscribe for shares in the Company at prices ranging from 1.0 pence to 36.0 pence under the Company's share option schemes. The Company operates an Unapproved and a Enterprise Management Incentive share option schemes. The number of share options, the periods in which they were granted and the periods in which they may be exercised are set out below:

Date of grant	*Exercise price (pence)*	*Exercise period*	*2006 Number*	*Issued number*	*Exercised number*	*Lapsed number*	*2007 Number*
July 2005	1.0	2005-2015	654,514	—	—	—	654,514
July 2005	36.0	2005-2015	277,777	—	—	(265,502)	12,275
July 2005	22.0	2006-2015	305,555	—	—	—	305,555
July 2005	18.0	2007-2015	305,555	—	—	—	305,555
July 2005	1.5	2006-2015	495,582	—	(360,999)	—	134,583
July 2005	1.6	2006-2015	105,553	—	(21,110)	—	84,443
July 2005	1.9	2006-2015	3,166,667	—	(316,667)	—	2,850,000
December 2005	31.3	2007-2015	879,313	—	—	(128,836)	750,477
July 2006	1.0	2006-2016	1,404,769	—	—	—	1,404,769
July 2006	1.0	2006-2016	499,995	—	—	—	499,995
March 2007	1.0	2007-2017	—	6,000,000	—	—	6,000,000
			8,095,280	6,000,000	(698,776)	(394,338)	13,002,166

Equity settled share based payments

The Company operates a 2005 Enterprise Management Incentive Scheme ('2005 Scheme''), introduced in July 2005. Under this scheme the Board can grant options over shares in the Company to employees of the Group. The 2005 Scheme options are granted with a fixed exercise price equal to the market price of the shares under option at the date of grant with a contractual life of ten years subject to continued employment.

The Company also operates a 2007 Enterprise Management Incentive Scheme ('2007 Scheme''), introduced in March 2007. The 2007 Scheme options are granted with an exercise price of 1.0 pence, these options may only be regarded as vested and exercisable once two conditions have been satisfied. The first condition is that an adjusted PBT target has to be satisfied to determine the number of earned option shares for each of the financial years ended 30 November 2007, 2008 and 2009. The second condition relates to the vesting periods of the earned option shares. The vesting period commences from whenever any particular options become earned and lasts for a period of two years. The contractual life of these options is ten years subject to continued employment. Awards under the 2007 Scheme are generally reserved for employees at management level or above.

Options are valued using the Black-Scholes option-pricing model. The fair value per option granted and the assumptions used in the calculation are as follows:

	2007	*2006*
Share price at date of grant (pence)	9.2	31.3
Exercise price (pence)	1.0	31.3
Number of employees	9	26
Shares under option	6,000,000	1,000,002
Vesting period (years)	3	3
Option life (years)	10	10
Expected life (years)	5	5
Expected volatility	47%	47%
Risk free rate	4.5%	4.5%
Expected dividends express as a dividend yield	—	—
Fair value per option (pence)	6.6	9.4

The expected volatility is based on historical volatility over the last three years. The expected life is the average expected period to exercise. The risk free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the assumed option life. A reconciliation of option movements over the year to 30 November 2007 is shown below:

	2007 Number ('000)	*2007 Weighted average exercise price (pence)*	*2006 Number ('000)*	*2006 Weighted average exercise price (pence)*
Outstanding at 1 December	8,095	7.3	6,894	4.7
Granted	6,000	1.0	2,905	11.4
Forfeited	(394)	34.5	(929)	6.3
Exercised	(699)	1.7	(775)	1.8
Outstanding at 30 November	13,002	3.9	8,095	7.3
Exercisable at 30 November	6,852	5.8	7,567	5.6

The weighted average fair value of each option granted during the year was 6.6 pence (2006: 9.4 pence).

	2007				*2006*			
Range of exercise price (pence)	*Weighted Average Exercise Price (pence)*	*Number of shares ('000)*	*Weighted average remaining life Expected*	*Contractual*	*Weighted Average Exercise Price (pence)*	*Number of shares ('000)*	*Weighted average remaining life Expected*	*Contractual*
1-2	1.2	11,628	3.3	7.2	1.5	6,327	3.6	6.4
18-36	25.3	1,374	1.9	7.8	28.1	1,768	2.8	8.8

The weighted average share price (at the date of exercise) of options exercised during the year was 9.5 pence (2006: 22.0 pence). The total charge for the year relating to share-based payments was £173,000 (2006: £126,000), all of which related to equity-settled share-based payment transactions. After deferred tax, the total charge was £158,000 (2006: £96,000).

21 Reserves

Group	Note	Share premium account £'000	Reverse acquisition reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 December 2006		6,798	506	4,951	(309)
Prior year adjustment	29	—	—	—	33
At 1 December 2006 (restated)		6,798	506	4,951	(276)
Exercise of options		4	—	—	—
Loss for the financial year		—	—	—	(885)
Credit for share option expenses		—	—	—	173
At 30 November 2007		6,802	506	4,951	(988)

Company	Note	Share premium account £'000	Profit and loss account £'000
At 1 December 2006		6,798	1,213
Prior year adjustment	29	—	95
At 1 December 2006 (restated)		6,798	1,308
Exercise of options		4	—
Profit for the financial year		—	323
Credit for share option expenses		—	173
At 30 November 2007		6,802	1,804

22 Reconciliation of movements in shareholders' funds

	Group		Company	
		(restated)		(restated)
	2007 £'000	2006 £'000	2007 £'000	2006 £'000
(Loss) / profit for the financial year	(885)	(224)	323	1,035
New shares issued	11	5,232	11	5,232
Credit for share option expenses	173	133	173	133
Merger reserve arising on acquisition of subsidiary undertaking	—	4,951	—	—
Net (reduction) / addition to shareholders' funds	(701)	10,092	507	6,400
Original opening shareholders' funds	13,029	2,967	9,094	2,773
Prior year adjustments (see note 29)	33	3	95	16
Opening shareholders' funds restated	13,062	2,970	9,189	2,789
Closing shareholders' funds	12,361	13,062	9,696	9,189

23 Commitments under operating leases

The Group and the company had annual commitments under non-cancellable operating leases as set out below:

	2007		2006	
	Land and buildings £'000	*Other £'000*	*Land and buildings £'000*	*Other £'000*
Operating leases which expire:				
Within one year	—	10	55	—
In two to five years	200	6	148	47
	200	16	203	47

24 Capital commitments

There were no capital commitments contracted that were not provided at the year end.

25 Related party transactions

The Company has taken advantage of the exemption which is conferred by Financial Reporting Standard No 8, Related Party Disclosures, which allows it not to disclose transactions with other group undertakings that are 90% or more owned by the Group. There were no other related party transactions during the year.

26 Reconciliation of operating loss to net cash inflow from operating activities

	Note	*2007 £'000*	*2006 (restated) £'000*
Operating loss		(1,059)	(421)
Depreciation charge		394	263
Intangible asset amortisation charge		34	20
Loss on disposal		1	1
Amortisation of goodwill		1,099	458
Exceptional share option expense	4	173	133
Decrease in stocks		42	113
(Increase)/ decrease in debtors		(503)	802
Increase/ (decrease) in creditors		885	(725)
Net cash inflow from operating activities		1,066	644

27 Reconciliation of net cash inflow to movement in net funds

	2007 £'000	*2006 £'000*
Increase in cash in the year	979	215
Movement in net funds	979	215
Net funds at start of year	3,049	2,834
Net funds at end of year	4,028	3,049

28 Analysis of net funds

	At 1 December 2006 £'000	Cash flow £'000	At 30 November 2007 £'000
Cash in hand and at bank	3,049	979	4,028

29 Prior year adjustment

The Group has applied the requirements of FRS 20 "Share-Based Payments". In accordance with the transitional provisions, FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 December 2006.

The effect of this change in accounting policy on the reported Group profit and loss has been an increase in general and administrative expense of £117,000 (2006: £89,000) and a reduction in the tax charge of £13,000 (2006: £30,000) as a result of the deferred tax asset arising on the FRS 20 charge. The impact is an increase of £33,000 on Group net assets.

The effect of this change on the Company has been a reduction in the profit for the year of £11,000 (2006: £27,000) and an increase in investments in subsidiaries of £106,000 (2006: £61,000). The impact is an increase of £95,000 the Company's net assets at 30 November 2006.

Part V

UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE ENLARGED GROUP

Set out below is an unaudited *pro forma* statement of aggregated net assets of the Enlarged Group as at 31 December 2009.

The unaudited *pro forma* statement of aggregated net assets has been prepared for illustrative purposes only to illustrate the effect on the net assets of the Enlarged Group as if the Placing and the Acquisition had taken place at 31 December 2009.

Because of the nature of *pro forma* financial information, this *pro forma* statement of aggregated net assets addresses a hypothetical situation and does not therefore represent the actual financial position of the Enlarged Group as at 31 December 2009.

The *pro forma* statement of aggregated net assets has been prepared on the basis described in the notes set out below and after making adjustments as described in those notes.

Pro forma statement of net assets:

£'000	*Netcall plc Note 1*	*Telephonetics plc Note 2*	*Note 3*	*Note 4*	*Adjustments Note 5*	*Note 6*	*Note 7*	*Aggregated pro forma net assets*
Fixed assets								
Goodwill & Intangible assets	2,947	12,807	—	—	(3,562)	—	—	12,192
Tangible assets	74	232	—	—	—	—	—	306
Deferred tax asset	560	—	—	—	—	—	—	560
	3,581	13,039	—	—	(3,562)	—	—	13,058
Current Assets								
Stocks	31	161	—	—	—	—	—	192
Debtors	1,055	2,152	—	—	—	(50)	—	3,157
Cash at bank and in hand	1,903	5,114	4,105	4,000	(5,730)	(754)	(4,000)	4,638
	2,989	7,427	4,105	4,000	(5,730)	(804)	(4,000)	7,987
Creditors: amounts falling due within one year	(1,575)	(5,057)	—	(4,000)	—	—	4,000	(6,632)
Net current assets/ (liabilities)	1,414	2,370	4,105	—	(5,730)	(804)	—	1,355
Non-current liabilities	—	(378)	—	—	—	—	—	(378)
Net assets/(liabilities)	4,995	15,031	4,105	—	(9,292)	(804)	—	14,035

Notes:

1. The consolidated net assets of Netcall plc have been extracted without material adjustment from the unaudited interim financial statements of Netcall plc as at 31 December 2009.
2. The consolidated net assets of Telephonetics plc have been extracted without material adjustment from the historical financial information on Telephonetics plc set out in part IV of this document.
3. The adjustment in column headed 'Note 3' represents the net placing proceeds of £4.11 million, being gross placing proceeds of £4.25 million from the issue of 22.37 million new ordinary shares in the Company at a placing price of 19 pence per share, net of expenses of £0.14 million.
4. The adjustment in column headed 'Note 4' represents the drawing down in full of the Facility Agreement described in paragraph 11.2(g) of Part VI of this document.

5. The adjustment in column headed 'Note 5' represents the acquisition by Netcall plc of Telephonetics plc comprising of:

	£'000	£'000
35.26 million shares issued to the shareholders of Telephonetics plc[(a)]		4,848
Cash paid for the acquisition of Telephonetics plc		5,729
Deferred consideration[(b)]		511
		11,088
Less net assets acquired:		
Fixed assets	13,039	
Current assets (adjusted for Telephonetics plc deal related costs)	7,046	
Creditors falling due within 1 year	(5,057)	
Non current liabilities	(378)	
Adjustment to carrying value of goodwill and intangible assets[(c)]	(3,562)	
	11,088	

(a) For the purposes of the unaudited pro-forma statement of aggregated net assets, the value of Netcall plc ordinary shares has been calculated based on the closing middle market price of 13.75 pence per Netcall Share on 28 May 2010, being the last Business Day prior to the date of the Announcement

(b) This represents the expected equity consideration payable to the vendors of Datadialogs Limited, calculated based on the closing middle market price of 13.75 pence per Netcall Share on 28 May 2010, being the last Business Day prior to the date of the Announcement

(c) The fair value of the equity consideration and the fair value of the identifiable assets and liabilities of Telephonetics plc, at the date at which control passes to Netcall plc, will be valued by Netcall plc. Accordingly, the goodwill that is calculated above is an illustrative estimate and does not represent the goodwill that will be reported in the first set of financial statements that Netcall plc publishes after the completion of the Acquisition

6. The adjustment in column headed 'Note 6' represents the payment of other transaction related costs incurred by Netcall plc, which will be charged to the Income Statement.

7. The adjustment in column headed 'Note 7' represents the repayment of the bridging facility using cash of the Enlarged Group.

Part VI

CONDITIONS AND FURTHER TERMS OF THE ACQUISITION

1. The Acquisition is conditional upon the Scheme becoming unconditional and becoming effective by no later than 2 August 2010 or such later date (if any) as Netcall and Telephonetics may, with the consent of the Panel (if required) agree and the Court may allow.

2. The Scheme is conditional upon:

2.1 the approval of the Scheme by a majority in number representing not less than 75 per cent. in value of the Scheme Shareholders present and voting, either in person or by proxy, at the Telephonetics Court Meeting (or any adjournment of the Telephonetics Court Meeting);

2.2 all resolutions required to approve and implement the Scheme, as set out in the notice of the Telephonetics General Meeting, being duly passed by the requisite majority at the Telephonetics General Meeting (or any adjournment of the Telephonetics General Meeting) and not being subsequently revoked; and

2.3 the sanction of the Scheme (and the confirmation of the Capital Reduction by the Court), (in either case with or without modification, any such modification being agreed by Netcall and Telephonetics) and office copies of the Court Orders and the Statement of Capital attached to the Second Court Order being delivered to the Registrar of Companies and the registration of the Second Court Order by the Registrar of Companies.

3. Telephonetics and Netcall have agreed that, subject to the provisions of paragraph 4 below, the Acquisition is also conditional upon, and accordingly the necessary action to make the Scheme effective, will only be taken upon, the satisfaction or waiver (if capable of waiver) of the following Conditions (as amended, if appropriate):

3.1 the passing at the Netcall General Meeting (or any adjournment thereof) of such resolution or resolutions as are necessary to approve, implement and effect the Acquisition and the Placing including a resolution approving the Acquisition pursuant to Rule 14 of the AIM Rules, and a resolution or resolutions to authorise the creation and allotment of New Netcall Shares and the Placing Shares;

3.2 the admission of the New Netcall Shares and the Placing Shares to trading on AIM becoming effective in accordance with the AIM Rules or (if Netcall and Telephonetics so determine and subject to the consent of the Panel) the London Stock Exchange agreeing to admit such shares of trading on AIM, subject only to (i) the allotment of such shares and/or (ii) in the case of the New Netcall Shares, the Acquisition becoming or being declared unconditional in all respects;

3.3 no central bank, government or governmental, quasi-governmental, supranational, statutory, administrative or regulatory body, or any court, institution, investigative body, association, trade agency or professional or environmental body or any other similar person or body in any jurisdiction (each, a "Relevant Authority") having decided to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference or enacted, made or proposed any statute, regulation, decision or order or having taken any other step or done anything and there not continuing to be outstanding any statute, regulation, decision or order which would or might reasonably be expected to (in each case to an extent which is material in the context of the Netcall Group or the Telephonetics Group):

   (a) make the Acquisition or its implementation or the proposed acquisition by Netcall of any shares or other securities in Telephonetics or the acquisition or control of Telephonetics or any member of the Telephonetics Group, illegal, void or unenforceable in or under the laws of any jurisdiction or directly or indirectly restrict or materially delay, prohibit or otherwise interfere with the implementation of, or impose additional conditions or obligations with respect to, or otherwise challenge, the Acquisition or the acquisition of any shares in Telephonetics, or control of Telephonetics, by Netcall result in a delay in the ability of Netcall, or render Netcall unable, to acquire some or all of the Telephonetics Shares;

(b) require, prevent or delay the divestiture (or materially alter the terms envisaged for such divestiture) by any member of the Netcall Group or any member of the Telephonetics Group of all or any portion of their respective businesses, assets or properties or impose any limitation on the ability of any of them to conduct their businesses or own their respective assets or properties or any material part thereof;

(c) impose any material limitation on, or result in a material delay in, the ability of any member of the Netcall Group or the Telephonetics Group to acquire, hold or exercise effectively, directly or indirectly, all or any rights of ownership of shares or other securities or to exercise management control over any member of the Telephonetics Group or Netcall Group;

(d) require any member of the Netcall Group or the Telephonetics Group to acquire any shares or other securities or rights there over in any member of the Telephonetics Group owned by any third party;

(e) make the Acquisition or its implementation or the proposed acquisition by Netcall of any shares or other securities in Telephonetics or the acquisition or control of Telephonetics or any member of the Telephonetics Group, illegal, void or unenforceable in or under the laws of any jurisdiction or directly or indirectly restrict or materially delay, prohibit or otherwise interfere with the implementation of, or impose additional conditions or obligations with respect to, or otherwise challenge, the Acquisition or the acquisition of any shares in Telephonetics, or control of Telephonetics, by Netcall;

(f) result in any member of the Telephonetics Group ceasing to be able to carry on business under any name under which it presently does so, the consequences of which would be material in the context of the Telephonetics Group taken as a whole;

(g) impose any limitation on the ability of any member of the Netcall Group or the Telephonetics Group to conduct or co-ordinate or integrate its business, or any part of it, with the business of any other member of the Netcall Group or the Telephonetics Group; or

(h) otherwise adversely affect the business, assets, prospects or profits of any member of the Netcall Group or the Telephonetics Group in a manner which is adverse to and material in the context of the Netcall Group or the Telephonetics Group in either case taken as a whole,

and all applicable waiting and other time periods during which any such Relevant Authority could decide to take, institute, implement or threaten any such action, proceeding, suit, investigation, enquiry or reference or otherwise intervene having expired, lapsed or been terminated;

3.4 all authorisations, orders, grants, recognitions, consents, confirmations, clearances, licences, permissions and approvals ("authorisations") required by law in any jurisdiction for or in respect of the Acquisition and the proposed acquisition of any shares or securities, directly or indirectly, in, or control of, Telephonetics and each member of the Telephonetics Group by any member of the Netcall Group having been obtained in terms and/or form reasonably satisfactory to Netcall from all appropriate Relevant Authorities or (without prejudice to the generality of the foregoing) from any persons or bodies with whom any member of the Netcall Group or the Telephonetics Group has entered into contractual arrangements and such authorisations together with all authorisations necessary for any member of the Telephonetics Group to carry on its business remaining in full force and effect and there being no notice or intimation of any intention to revoke, suspend, materially modify or not to renew the same and all necessary filings having been made, all appropriate waiting and other time periods (including extensions thereto) under any applicable legislation and regulations in any jurisdiction having expired, lapsed or been terminated and all necessary statutory or regulatory obligations in any jurisdiction in respect of the Acquisition or the proposed acquisition of Telephonetics by Netcall or of any Telephonetics Shares or any matters arising therefrom having been complied with;

3.5 save as Disclosed, there being no provision of any agreement, permit, lease, licence or other instrument to which any member of the Telephonetics Group or the Netcall Group is a party or by or to which it or any of its assets may be bound or subject which, as a consequence of the making or implementation of the Acquisition or the acquisition by Netcall directly or indirectly of Telephonetics or because of a change in the control or management of Telephonetics or Netcall or any member of the Telephonetics Group or Netcall Group, could or might reasonably be expected to (in each case to an extent which is material in the context of the Netcall Group or the Telephonetics Group) result in:

(a) any monies borrowed by, or other indebtedness (actual or contingent) of, or grant available to, any member of the Telephonetics Group or Netcall Group becoming repayable or capable of being declared repayable immediately or earlier than the stated maturity or repayment date or the ability of any member of the Telephonetics Group or Netcall Group to borrow moneys or incur indebtedness being or becoming capable of being withdrawn or inhibited;

(b) any such agreement, arrangement, permit, lease, licence or other instrument or any right, interest, liability or obligation of any member of the Telephonetics Group or Netcall Group therein, being terminated or adversely modified or affected or any adverse action being taken or any onerous obligation or liability arising thereunder;

(c) any mortgage, charge or other security interest being created over the whole or any part of the business, property or assets of any member of the Telephonetics Group or Netcall Group or any such security (whenever arising) becoming enforceable;

(d) the value of any member of the Telephonetics Group or Netcall Group or its financial or trading position or prospects being prejudiced or adversely affected;

(e) any assets or interests of any member of the Telephonetics Group or Netcall Group being or falling to be charged or disposed of or any right arising under which any such asset or interest could be required to be disposed of or charged otherwise than in the ordinary course of business;

(f) the rights, liabilities, obligations or interests or business of any member of the Telephonetics Group or Netcall Group in or with any other person, firm or company (or any arrangement relating to such interest or business) being terminated or adversely modified or affected;

(g) any member of the Telephonetics Group or Netcall Group ceasing to be able to carry on business under any name under which it currently does so; or

(h) the creation of any liability, actual or contingent, by any member of the Telephonetics Group or Netcall Group;

3.6 since 28 May 2010, save as Disclosed, no member of the Telephonetics Group or Netcall Group having:

(a) (save for Telephonetics Shares issued pursuant to the exercise of options granted under the Telephonetics Share Option Schemes or the Telephonetics Unapproved Options or as between Telephonetics and wholly-owned subsidiaries of Telephonetics) issued or agreed to issue or authorised or proposed the issue of additional shares of any class or securities convertible into or rights, warrants or options to subscribe for or acquire any such shares or convertible securities;

(b) other than to another member of the Telephonetics Group or Netcall Group, recommended, declared, paid or made or proposed to recommend, declare, pay or make any dividend, bonus or other distribution (whether payable in cash or otherwise) other than dividends lawfully paid to Telephonetics or wholly-owned subsidiaries of Telephonetics;

(c) save for Intra-Telephonetics Group Transactions or Intra-Netcall Group Transactions, merged or demerged with or acquired any body corporate, partnership or business;

(d) save for Intra-Telephonetics Group Transactions or Intra-Netcall Group Transactions, acquired, or (other than in the ordinary course of business) disposed of, transferred, mortgaged or charged or created any security interest over any asset or any right, title or interest in any asset (including shares and trade investments) or authorised, proposed or announced any intention to do so which, in any such case, is material in the context of the Telephonetics Group or Netcall Group taken as a whole;

(e) save for Intra-Telephonetics Group Transactions, issued or authorised or proposed the issue of any debentures or incurred or increased any indebtedness or contingent liability or made, authorised, proposed or announced an intention to propose any change in its share or loan capital;

(f) entered into or varied or announced its intention to enter into or vary any contract, transaction, commitment or arrangement (whether in respect of capital expenditure or otherwise) which is of a long term or unusual nature or which involves or could involve an obligation of a nature or magnitude which, in any such case, is material in the context of the Telephonetics Group or Netcall Group taken as a whole or which is or is likely to be restrictive in any material respect on the business of any member of the Telephonetics Group or the Netcall Group;

(g) entered into, implemented, authorised or proposed any reconstruction, amalgamation, scheme of arrangement or other transaction or arrangement otherwise than in the ordinary course of business or announced any intention to do so to an extent which is materially adverse in the context of the Telephonetics Group;

(h) entered into, or varied in any material respect the terms of, any contract or agreement with any of the directors or senior executives of Telephonetics or Netcall or any of their subsidiaries to an extent which is materially adverse in the context of the Telephonetics Group;

(i) taken or proposed any corporate action or had any material legal proceedings started or threatened against it or had any petition presented for its winding-up (voluntary or otherwise), dissolution or reorganisation or for the appointment of a receiver, administrator, administrative receiver, trustee or similar officer of all or any of its assets and/or revenues or any analogous proceedings in any jurisdiction;

(j) waived or compromised any claim other than in the ordinary course of business;

(k) purchased, redeemed or repaid or proposed the purchase, redemption or repayment of any of its own shares or other securities or reduced or made any other change to any part of its share capital;

(l) been unable or admitted that it is unable to pay its debts or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business; and

(m) made or agreed or consented to any significant change to the terms of the trust deeds constituting the pension schemes established for its directors, employees or their dependants or to the benefits which accrue; or to the pensions which are payable, thereunder, or to the basis on which qualification for, or accrual or entitlement to, such benefits or pensions are calculated or determined or to the basis upon which the liabilities (including pensions) of such pension schemes are funded or made, or agreed or consented to any change to the trustees including the appointment of a trust corporation; or

(n) entered into, varied or modified any contract, commitment or agreement with respect to any of the transactions, matters or events referred to in this Condition 3.6 or announced an intention to do so;

3.7 since 28 May 2010, save as Disclosed:

(a) no litigation, arbitration, prosecution or other legal proceedings having been instituted, announced or threatened or become pending or remaining outstanding by or against any member of the Telephonetics Group or Netcall Group to which any member of the Telephonetics Group or Netcall Group is or may become a party (whether as claimant, respondent or otherwise) and no enquiry or investigation by or complaint or reference to any Relevant Authority or other investigative body having been threatened, announced, implemented or instituted or remaining outstanding against or in respect of any member of the Telephonetics Group or Netcall Group which, in any such case, would or might reasonably be expected adversely to affect any member of the Telephonetics Group or Netcall Group to an extent which is material in the context of the Telephonetics Group or Netcall Group taken as a whole;

(b) no material adverse change having occurred in the business, assets, financial or trading position, profits or prospects of the Telephonetics Group or Netcall Group taken as a whole;

(c) no contingent or other liability having arisen which might reasonably be expected materially adversely to affect the Telephonetics Group or Netcall Group taken as a whole;

3.8 save as Disclosed, Netcall or Telephonetics not having discovered that:

(a) any business, financial or other information concerning any member of the Telephonetics Group or Netcall Group publicly disclosed or disclosed to Netcall or Telephonetics at any time by or on behalf of any member of the Telephonetics Group is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make the information contained therein not misleading which, in any such case, is material in the context of the Telephonetics Group or Netcall Group taken as a whole;

(b) any member of the Telephonetics Group or Netcall Group is subject to any liability, actual or contingent which is material in the context of the Telephonetics Group or Netcall Group taken as a whole; or

(c) there is, or is likely to be, any liability (whether actual or contingent) to make good, repair, reinstate or clean up any property now or previously owned, occupied or made use of by any past or present member of the Telephonetics Group or Netcall Group or any controlled waters under any environmental legislation, regulation, notice, circular or order of any Relevant Authority or otherwise and which is material in the context of the Telephonetics Group or Netcall Group taken as a whole.

4. Subject to the requirements of the Panel or the Court, Netcall reserves the right to waive, in whole or in part, all or any of the Conditions so far as they relate to Telephonetics and Telephonetics reserves the right to waive in whole or in part all or any of the Conditions insofar as they relate to Netcall except, save for paragraphs 3.1 and 3.2 above and in the circumstances set out in paragraph 6 below. Netcall and Telephonetics shall be under no obligation to waive (if capable of waiver) or treat as fulfilled any of Conditions 2.1 to 2.3 by a date earlier than the latest date for the fulfilment of that Condition notwithstanding that the other Conditions may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any such Conditions may not be capable of fulfilment.

5. If Netcall is required by the Panel to make an acquisition or acquisitions for the Ordinary Shares under the provisions of Rule 9 of the Code, Netcall may make such alterations to the terms and conditions of the Acquisition as may be necessary to comply with the provisions of that Rule.

6. The Acquisition will lapse and the Scheme will not proceed if, before the date of either of the Telephonetics Shareholder Meetings, (i) the Acquisition, or any matter arising from it, is referred to the Competition Commission; or (ii) following a request to the European Commission under Article 22(3) of Council Regulation 139/2004/EC (the "Regulation") in relation to the Acquisition or any part of it, which request is accepted by the European Commission, the European Commission initiates proceedings under Article 6(1)(c) of the Regulation.

7. Netcall reserves the right, with the consent of the Panel, to elect to implement the Acquisition by way of a take over offer. In such event, such Acquisition will be implemented on the same terms (subject to appropriate amendments, including (without limitation) an acceptance condition set at 90 per cent. (or such lesser percentage (being more than 50 per cent.) as Netcall may determine) of the shares to which the Acquisition relates), so far as applicable, as those which would apply to the Scheme.

8. The availability of the Acquisition to persons not resident in the United Kingdom may be affected by the laws of the relevant jurisdiction. Persons who are not resident in the United Kingdom should inform themselves about and observe any applicable requirements.

Part VII

ADDITIONAL INFORMATION

1. Responsibility

The Netcall Directors and the Proposed Netcall Directors, whose names appear on page 12 of this document, and the Company accept responsibility, both collectively and individually for the information contained in this document and compliance with the AIM Rules. To the best of the knowledge and belief of such directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. The Company

2.1 The Company was incorporated and registered as a public limited company in England and Wales under the Companies Acts 1948 to 1981 on 1 May 1984 with the name Ackrill Carr plc and with registered number 1812912. On 29 March 1996, the Company changed its name to Netcall plc.

2.2 The Company is a public limited company and accordingly the liability of its members is limited. The Company and its activities and operations are principally regulated by the Act and the regulations made thereunder.

2.3 The head and registered office of the Company is at 10 Harding Way, St. Ives, Cambridgeshire, PE27 3WR. The telephone number of the Company is 01480 495 300.

3. Share capital

3.1 As at 30 June 2006, the issued share capital of the Company, of which all of the issued shares were fully paid up, was as follows:

	Issued	
	Number	*Amount*
Netcall Shares	65,942,603	£3,297,130.15

3.2 The following alterations to the Company's share capital have taken place since 30 June 2006:

(a) on 1 July 2006, the issued share capital of the Company was increased by the allotment of 55,000 Netcall Shares;

(b) on 27 February 2007 the issued share capital of the Company was increased by the allotment of 53,334 Netcall Shares;

(c) on 14 October 2008 the issued share capital of the Company was increased by the allotment of 300,000 Netcall Shares;

(d) on 30 October 2008 the Company purchased 500,000 Netcall Shares for an aggregate consideration of £52,000 and transferred those 500,000 Netcall Shares to treasury;

(e) on 6 November 2008 the Company purchased and cancelled 280,000 Netcall Shares for an aggregate consideration of £32,480 and cancelled the 500,000 Netcall Shares held in treasury;

(f) on 17 November 2008 the Company purchased and cancelled 2,970,206 Netcall Shares for an aggregate consideration of £356,424.72;

(g) on 6 October 2009 the issued share capital of the Company was increased by the allotment of 1,596,958 Netcall Shares to the vendors of Q-Max in partial consideration for the acquisition of Q-Max.

3.3 As at 30 June 2009, being the latest date to which audited accounts for the Company have been prepared, the issued share capital of the Company, all of which is fully paid up, was as follows:

	Issued	
	Number	*Amount*
Netcall Shares	62,600,731	£3,130,036.55

3.4 The issued share capital of the Company, all of which is fully paid up, as at the date of publication of this document is as follows:

	Issued	
	Number	*Amount*
Netcall Shares	64,197,689	£3,209,884.45

3.5 The issued share capital of the Company, all of which will be fully paid up, as it is expected to be immediately following Admission of the New Netcall Shares and the Placing Shares is as follows:

	Issued	
	Number	*Amount*
Netcall Shares	121,822,298	£6,091,114.90

Based on an assumption that all in-the-money options over shares in the capital of Telephonetics are exercised

3.6 The total number of options under the Netcall Share Option Schemes outstanding as at 11 June 2010 (being the latest practicable date prior to the publication of this document) is as follows:

Netcall Unapproved Scheme:

Date of grant	*Number of Netcall Shares under option*	*Exercise price (pence)*	*Exercise period*
15.02.02	100,000	20	Before 15.02.12
27.01.03	100,000	10	Before 27.01.13
02.06.09	3,370,000	5	Before 30.01.15[1]
Total	3,570,000		

1 The option ceases to be exercisable, and lapses, 48 hours after the time at which the accounts of the Company for the financial year ended 30 June 2014 are published on a regulatory information service

2000 EMI Scheme:

Date of grant	*Number of Netcall Shares under option*	*Exercise price (pence)*	*Exercise period*
19.12.02	142,500	7.25	Before 19.12.12
19.12.02	12,500	7.25	Before 19.12.12
19.12.02	90,000	7.25	Before 19.12.12
26.02.04	400,000	25	Before 26.02.14
Total	645,000		

3.7 Pursuant to the Act (and the regulations made thereunder) and to a special resolution of the Company dated 19 November 2009, the limit on the maximum amount of shares that may be allotted by the Company was removed.

3.8 Pursuant to an ordinary resolution of the Company dated 19 November 2009, the Netcall Directors are generally and unconditionally authorised pursuant to section 551 of the Act to allot shares and grant rights to subscribe for or to convert any security into shares (such shares and rights to subscribe for or to convert any security into shares being "**relevant securities**") up to an aggregate nominal amount of £1,069,854, such authority to expire upon the earlier of the conclusion of the next Annual General Meeting of the Company and the date which is 15 months from the date of passing of the resolution, except that the Netcall Directors can during such period make offers or arrangements which could or might require the allotment of relevant securities after the expiry of such period.

3.9 Pursuant to a special resolution of the Company dated 19 November 2009, the Netcall Directors are empowered pursuant to section 571 of the Act to allot equity securities (as defined in section 560(1) of the Act) of the Company wholly for cash pursuant to the authority of the Netcall Directors under section 551 of the Act referred to in paragraph 3.8 above, and/or by way of a sale of treasury shares by virtue of section 573 of the Act, as if the provisions of section 561 of the Act did not apply to such allotment provided that this power is limited to:

(a) the allotment of equity securities in connection with an invitation or offer of equity securities to the shareholders of the Company (excluding any shares held by the Company as treasury shares (as defined in section 724(5) of the Act)) in proportion (as nearly as practicable) to their respective holdings of shares or in accordance with the rights attached to such shares (but subject to such exclusions or other arrangements as the Netcall Directors may deem necessary or expedient in relation to fractional entitlements or as a result of legal, regulatory or practical problems arising under the laws of or the requirements of any overseas territory or by virtue of shares being represented by depository receipts or the requirements of any regulatory body or stock exchange or any other matter whatsoever); and

(b) the allotment (other than pursuant to the power referred to in sub-paragraph (a) above) of equity securities up to an aggregate nominal value equal to £1,069,854,

such authority to expire upon the earlier of the conclusion of the next annual general meeting of the Company and the date which is 15 months from the date of passing of the resolution, except that the Netcall Directors can during such period make offers or arrangements which could or might require the allotment of equity securities after the expiry of such period.

3.10 The provisions of section 561 of the Act (to the extent not disapplied pursuant to section 570 of the Act) confer on shareholders of the Company certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 560(1) of the Act) which are, or are to be, paid up in cash and apply to the unissued equity share capital of the Company. These provisions have been disapplied to the extent referred to in paragraph 3.9 above.

3.11 Save as mentioned in this paragraph 3:

(a) no unissued share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(b) there are no shares in the capital of the Company currently in issue with a fixed date on which entitlement to a dividend arises and there are no arrangements in force whereby future dividends are waived or agreed to be waived;

(c) there are no outstanding convertible securities or exchange securities or warrants issued by the Company; and

(d) no share capital or loan capital of the Company or any of its subsidiaries (other than intra-group issues by wholly-owned subsidiaries) is in issue and no such issue is proposed.

3.12 None of the Netcall Shares have been sold or made available to the public in conjunction with the application for Admission.

3.13 Save as disclosed in this document, no commission, discounts, brokerages or other specific terms have been granted by the Company in connection with the issue or sale of any of its share or loan capital.

3.14 The Netcall Shares are in registered form and capable of being held in uncertificated form. Application will be made to Euroclear for the New Netcall Shares and the Placing Shares to be enabled for dealings through CREST as a participating security. No temporary documents of title will be issued. It is expected that definitive share certificates will be posted to those holders of New Netcall Shares and Placing Shares who have requested the issue of such shares in certificated form by the date which is 14 days after the Effective Date in the case of the New Netcall Shares and within 14 days of the dates of the allotment in the case of the Placing Shares. The International Securities Identification Number (ISIN) for the Netcall Shares is GB0000060532.

4. Subsidiary undertakings

4.1 The Company is the holding company of the Netcall Group and will be the holding company of the Enlarged Group.

4.2 The Company currently has the following significant subsidiaries:

Name	*Registration number*	*Status*	*Place of incorporation*	*Percentage of voting share capital held*
Netcall Telecom Limited	01888629	Active	England and Wales	100
Q-Max Systems Limited	02761737	Active	England and Wales	100

4.3 The Enlarged Group will, following the Acquisition, also have the following significant subsidiaries:

Name	*Registration number*	*Status*	*Place of incorporation*	*Percentage of voting share capital held*
Telephonetics plc	05296558	Active	England and Wales	100
Datadialogs Limited	02960456	Active	England and Wales	100
Telephonetics VIP Limited	02831215	Active	England and Wales	100
Voice Integrated Products Limited	02606664	Active	England and Wales	100

5. Summary of the Articles of Association of the Company

5.1 Articles of Association

The articles of association of the Company ("**Articles**"), which were adopted by a special resolution of the Company passed on 19 November 2009, contain, *inter alia*, provisions to the following effect:

(a) Rights attaching to Netcall Shares

(i) Voting rights

Subject to any special terms as to voting upon which any shares may have been issued, or any suspension or abrogation of voting rights, at any general meeting on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative has one vote, and on a poll every member present in person or by proxy or (being a corporation) by a duly authorised representative has one vote for each share of which he is the holder. A member of the Company shall not be entitled (unless the Netcall Directors determine otherwise), in respect of any share held by him, to vote (either personally or by proxy) at any general meeting of the Company unless all amounts payable by him in respect of that share in the Company have been paid or credited as having been paid, or if a request for the disclosure of interest in shares has been served on that member, and there is a continuing default in replying to such notice;

(ii) Dividends

Subject to the provisions of the Act and of the Articles and to any special rights attaching to any shares, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Netcall Board. Subject to the special rights attaching to any shares, all dividends shall be apportioned and paid *pro rata* according to the amounts paid up or credited as paid up (otherwise than in advance of calls) on the shares during any portion or portions of the period in respect of which the dividend is paid. Interim dividends may be paid provided that they appear to the Netcall Board to be justified by the profits available for distribution and the financial position of the Company. Unless otherwise provided by the rights attached to any share, no dividends in respect of a share shall bear interest. The Netcall Board may, with the prior authority of an ordinary resolution of the Company, satisfy a dividend by the distribution of assets, or offer the holders of ordinary shares the right to elect to receive ordinary shares credited as fully paid instead of cash in respect of all or part of any dividend. Any dividend unclaimed after a period of 12 years from the date on which the dividend became due for payment shall be forfeited and shall revert to the Company.

(iii) Return of capital

On a winding-up of the Company, the surplus of assets available for distribution shall, with the sanction of an extraordinary resolution of the Company, be divided amongst the members in specie in such manner as shall be determined by the liquidator.

(b) *Transfer of shares*

Save in the case of shares which have become participating securities for the purposes of the CREST Regulations, title to which may be transferred by means of a relevant system such as CREST without a written instrument, all transfers of shares may be effected by an instrument of transfer in writing in any usual form or in any other form approved by the Netcall Board. The instrument of transfer shall be executed by or on behalf of the transferor and, except in the case of fully paid shares, by or on behalf of the transferee. The Netcall Board may, in its absolute discretion and without giving any reason (but subject to any rules or regulations of the London Stock Exchange), refuse to register any transfer of certificated shares unless:

(i) it is in respect of a share which is fully paid up;

(ii) it is in respect of a share on which the Company has no lien;

(iii) it is in respect of only one class of share;

(iv) it is in favour of a single transferee or not more than four joint transferees;

(v) it is duly stamped (if required) or otherwise shown to be exempt from stamp duty; and

(vi) it is lodged at the registered office together with the relevant share certificate(s) and such other evidence as the Netcall Board may reasonably require to show the right of the transferor to make the transfer,

The Netcall Board may, in its absolute discretion, refuse to register the transfer of an uncertificated share as permitted by the CREST Regulations (subject to any relevant requirements of the London Stock Exchange).

If the Netcall Board refuses to register a transfer it must, within two months after the date on which the transfer was lodged with the Company, send notice of the refusal to the transferee together with its reasons for refusal.

The registration of transfers may be suspended by the Netcall Board for any period (not exceeding 30 days) in any year.

(c) *Disclosure of interests in shares*

The provisions of rule 5 of the Disclosure and Transparency Rules govern the circumstances in which a person may be required to disclose his interests in the share capital of the Company. *Inter alia,* this requires a person who is interested in 3 per cent. or more of the voting rights in respect of the Company's issued ordinary share capital to notify his interest to the Company (and above that level, any change in such interest equal to 1 per cent. or more). In addition, the City Code contains further provisions pursuant to which a person may be required to disclose his interests in the share capital of the Company.

Pursuant to the Articles, if a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 793 of the Act and has failed in relation to any shares (the "**default shares**") to give the Company the information thereby required within the prescribed period from the date of the notice, the following sanctions shall apply:

(i) the member shall not be entitled in respect of the default shares to be present or to vote (either in person or by representative or proxy) at any general meeting or at any separate meeting of the holders of any class of shares or on any poll or to exercise any other right conferred by membership in relation to any such meeting or poll;

(ii) where the default shares represent at least 0.25 per cent. in nominal value of their class any dividend or other money payable in respect of the shares shall be withheld by the Company which shall not have any obligation to pay interest on it; and

(iii) no transfer of any shares held by the member shall be registered unless:

– the member's holding immediately prior to the proposed transfer represented less than 0.25 per cent. of the issued shares of the relevant class; or

– the transfer is a Permitted Sale as defined in the Articles pursuant to a takeover offer of the Company or a *bona fide* sale to an unconnected third party.

(d) Changes in share capital

The Company may alter its share capital as follows:

(i) it may by ordinary resolution consolidate and divide all or any of its share capital into shares of larger amounts and sub-divide its shares or any of them into shares of smaller amounts;

(ii) it may by special resolution cancel any shares which have not been taken or agreed to be taken by any person;

(iii) it may from time to time, pursuant to section 617 of the Act, increase the capital by the creation of new shares, such increase to be of such aggregate amount and to be divided into shares of such respective amounts as the Directors may prescribe;

(iv) subject to any consent required by law and to any rights for the time being attached to any shares, it may by special resolution reduce its share capital, any capital redemption reserve, any share premium account in any manner; and

(v) subject to the provisions of the Act and to any rights for the time being attached to any shares it may with the sanction of a special resolution enter into any contract for the purchase of its own shares.

(e) Variation of rights

Subject to the provisions of the Act and of the Articles, the special rights attached to any class of share in the Company may be varied or abrogated either with the consent in writing of the holders of not less than three quarters in nominal value of the issued shares of the class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class (but not otherwise) and may be so varied or abrogated if at any time the capital of the Company is divided into different classes of shares.

(f) General meetings

Pursuant to the Act, an annual general meeting is required to be held every year at such time and place as may be determined by the Netcall Board. The Netcall Board may convene a general meeting whenever it thinks fit. General meetings may also be convened on the requisition of members pursuant to the Act.

Pursuant to the Act, 21 clear days' notice of every annual general meeting and 14 clear days' notice of every extraordinary general meeting is required to be given. The accidental omission to give notice to, or the non-receipt of such notice by, any person entitled to receive notice of the meeting will not invalidate any resolution passed or proceeding at any such meeting.

No business may be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business. Two persons entitled to attend and vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member, constitutes a quorum.

With the consent of any meeting at which a quorum is present the chairman may adjourn the meeting. Notice of adjournment or of the business to be transacted at the adjourned meeting is not required unless the meeting is adjourned for 3 months or more. No business may be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

(g) *Directors' interests in contracts*

Subject to the provisions of the Act and of the Articles and provided that he has disclosed to the Netcall Board the nature and extent of any interest of his, and if required had such conflict authorised, a director of the Company, notwithstanding his office:

(i) may be party to or otherwise interested in any contract with the Company or in which the Company is otherwise interested;

(ii) may hold any other office or place of profit under the Company and may act in a professional capacity for the Company;

(iii) may be a member of, a director or other officer of, or employed by, or otherwise interested in, any company in which the Company has an interest ;

(iv) be or become a director of any other company which cannot reasonably be regarded as giving rise to a conflict of interest at the time of his appointment to that company; and

(v) shall not, by reason of his office, be liable to account to the Company for any benefit which he derives from any such office, employment, transaction or arrangement or from any interest in any such body corporate and no such transaction or arrangement shall be avoided on the ground of any such interest or benefit,

provided that no director of the Company or firm in which he is interested may act as auditor to any member of the group.

Save as provided below, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Netcall Board or any committee of the Netcall Board in respect of any contract, arrangement, transaction or any proposal whatsoever in which he has any material interest or duty which conflicts with the interests of the Company. A Netcall Director shall be entitled to vote (and be counted in the quorum) in respect of any resolution at such meeting if his duty or interest arises only because the resolution relates to one of the following matters:

(i) the giving to him of any guarantee, security or indemnity in respect of money lent or obligations incurred by him at the request of or for the benefit of the Company or any of its subsidiary undertakings;

(ii) the giving to a third party of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part, either alone or jointly with others, under a guarantee or indemnity or by the giving of security;

(iii) the giving to him of an indemnity where all the Directors are being offered indemnities on the same terms;

(iv) where the Company or any of its subsidiary undertakings is offering securities in which offer the Netcall Director is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which the Netcall Director is to participate;

(v) relating to the company funding expenditure on defending proceedings where all other directors are being offered substantially the same arrangements;

(vi) relating to another company in which he and any persons connected with him do not to his knowledge hold an interest in shares representing 1 per cent. or more of either any class of the equity share capital, or the voting rights, in such company;

(vii) relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings (including pension benefits) which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or

(viii) concerning insurance which the Company proposes to maintain or purchase for the benefit of Netcall Directors or for the benefit of persons including Directors.

A Netcall Director may not vote or be counted in the quorum on any resolution of the Netcall Board or committee of the Netcall Board concerning his own appointment to a position with the Company or any company in which the Company is interested (including its termination).

Where proposals are under consideration concerning the appointments (including fixing or varying the terms of the appointment) of two or more Netcall Directors, such proposals may be divided and a separate resolution considered in relation to each Netcall Director. In each case, each such Netcall Director (if not otherwise debarred from voting) is entitled to vote (and be counted in the quorum) in respect of each resolution except that resolution concerning his own appointment.

(h) *Netcall Directors*

The aggregate fees which the Netcall Directors shall be entitled to receive for their services in the office of director shall not exceed such sum as may from time to time be determined by the remuneration committee of the Netcall Board or by an ordinary resolution of the Company. Such sum shall be divided among the Netcall Directors in such proportions and in such manner as the Netcall Board may determine or, in default of such determination, equally.

All of the Netcall Directors are entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by them in or about the performance of their duties as Netcall Directors. If by arrangement with the Netcall Board any Netcall Director performs any special duties or services outside his ordinary duties as a Netcall Director and not in his capacity as a holder of employment or executive office, he may be paid such reasonable additional remuneration which may be by a lump sum or by way of salary, participation in profits or otherwise as the Netcall Board may determine.

(i) *Pensions and benefits*

The Netcall Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits and to provide death or disability benefits or other allowances or gratuities (by insurance or otherwise) for any person who is or who has at any time been a director of the Company (and for any member of his family including a spouse or former spouse or any person who is or was dependent on him). For this purpose the Netcall Board may establish, maintain, subscribe and contribute to any scheme, trust or fund and pay premiums.

(j) *Borrowing powers*

The Netcall Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any of its undertakings, property, assets (present or future) and uncalled capital and, subject to the provisions of the Act, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or any third party. The aggregate principal amount for the time being outstanding in respect of monies borrowed or secured by the Company and its subsidiaries (exclusive of intra-group borrowings) shall not at any time, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to two and a half times the aggregate of:

(i) the amount paid up (or credited as paid up) on the nominal issued share capital of the Company; and

(ii) the amount outstanding to the credit of the consolidated reserves of the Company and its subsidiaries (including any share premium account, capital redemption reserve fund and credit or debit balance on any other reserve) after adding thereto or deducting therefrom any credit or debit balance on the profit and loss account,

all as shown in the then latest published audited consolidated balance sheet of the Company and its subsidiaries but after adjustments as set out in the Articles.

6. Netcall Directors and employees

6.1 The names of the Netcall Directors and the Proposed Netcall Directors and each of their existing and proposed respective functions are set out in Part I of this document.

6.2 The business address of the Netcall Directors is (and of the Proposed Netcall Directors will be) 10 Harding Way, St. Ives, Cambridgeshire, PE27 3WR.

6.3 Details of the length of service of each of the present Netcall Directors to date in their current office are set out below:

Name	*Age*	*Commencement date in office*
Mr Michael Edward Wilson Jackson	60	23/03/2009
Roger Allsop	66	28/08/1987
Henrik Peter Bang	52	05/01/2004

6.4 Details of any directorship that is (or was in the last five years) held by each of the Netcall Directors and Proposed Netcall Directors, and any partnership of which each of the Netcall Directors and Proposed Netcall Directors is (or was in the last five years) a member in addition to their directorships of the Company and its subsidiary undertakings are set out below:

Name	*Current directorships and partnerships*	*Previous directorships and partnerships*
Roger Allsop	• Victor Hoists Limited • Hope End Securities Limited • Malvair Properties Limited • Tricorn Group plc • Searchwell Limited • MTC Holdings Limited • Malvair Investments Limited • Issquared Limited • Integrated Statistical Solutions Limited • Seven Stars (Ledbury) Limited	• Malvern Tubular Components Limited • Maxpower Automotive Limited • Redman Fittings Limited
Michael Edward Wilson Jackson	• Computer Software Group Limited • Elderstreet Investments Limited • Select Software Tools plc • Astaire Group PLC • Old Vicarage Nominees Limited • Elderstreet Private Equity Limited • Elderstreet VCT plc • Elderstreet General Partner (Kinetique) Limited • Elderstreet Ballater Limited • Elderstreet Capital Partners Nominees Limited • Royal Albert Hall Developments Limited • Syncissue Limited • Burra Burra Distribution	• The Sage Group plc • Alterian (Newbury) Limited • Computer Software Limited • Guildford Equityco Limited • Interbizz Financial Systems Limited • Lupus Capital plc • M&R Jackson Investments LLP • Mediasurface Limited • Netstore Limited • Party Gaming plc • Planit Employee Incentive Trustees Limited • Planit Holdings Limited • Sage (South Gosforth) Limited • Searchspace Group Limited • Select Software Tools Plc • Steve Dudman Plant Limited • Travelstore.com Group plc • Wimbledon 123 Limited

Name	*Current directorships and partnerships*	*Previous directorships and partnerships*
	Ltd • Forsyth Whitehead & Associates Limited • Sky High plc • The Web Factory Birmingham Limited • Snacktime UK Limited • Concorde Solutions Limited • The Kellan Group plc • E-Trader Group Limited • Elderstreet Holdings Limited • Snacktime plc • Evolve Capital plc • Soames Limited • Aconite Technology Limited • Contact London (Services) Limited • Advanced Computer Software plc • Contis Group Limited • Access Intelligence plc • Due North Limited • Management Services 2000 Limited • Willow Starcom Limited • Wired Gov Limited • Solcara Limited • Intelligent Environments Group plc • Fords Packaging Systems 1998 Limited • Fords Packaging Systems Limited • 2Zero Software Limited • Access Intelligence Media and Communications Limited • Bluehone Holdings plc • Synchronica plc • Cobent Limited	• Guildford Guaranteeco Limited • Young Enterprise London Limited • Transoft Limited • Apertio Limited • Iris Financials Limited • Accounts Office Online Limited • Exchequer Software Limited
James Andrew Ormondroyd	• Telephonetics • Telephonetics VIP Ltd • Voice Integrated Products Ltd • Datadialogs Limited	

Name	*Current directorships and partnerships*	*Previous directorships and partnerships*
Mark Christopher Brooks	• Summit Funding Ltd • Telephonetics	• Total Therapy Limited • Telephonetics VIP Ltd • VIP Sales Ltd • VIP Managed Services Ltd • Silkware Limited • Voice Integrated Products Ltd
Michael Patrick Neville	• Telephonetics • Cellcast Plc • Besbury Limited • Minmet PLC	• Felix Corporation Limited • World Television Group plc • Virtue Broadcasting (Holdings) Limited • World Television (Switzerland) Limited • Virtue Communications Limited • Kamera Interactive UK Limited • Crawshaw Group PLC • Atlas Interactive Holdings Limited • UCTX Limited • Virtue Broadcasting Limited • Virtue Corporate Services Limited • World Television Ltd • Green Symbol Limited • Alnwick Enterprises Limited • Besbury Consultancy Limited • Bring Back Limited • Aston Villa Investments Limited • Trade Sound Limited • P.S. Group (UK) Ltd • Reenergy Group plc • Atlas Interactive Group Limited • Atlas Interactive Management Limited • Telephonetics VIP Ltd

6.5. Save as disclosed in paragraph 6.6 to 6.9 below, at the date of this document none of the Netcall Directors or Proposed Netcall Directors:

(a) has any unspent convictions in relation to indictable offences;

(b) has been declared bankrupt or has entered into an individual voluntary arrangement;

(c) was a director of any company at the time of or within the 12 months preceding any receivership, compulsory liquidation, creditors' voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors with which such company was concerned;

(d) was a partner in a partnership at the time of or within the 12 months preceding a compulsory liquidation, administration or partnership voluntary arrangement of such partnership;

(e) has had his assets the subject of any receivership or was a partner in a partnership at the time of or within the 12 months preceding any assets thereof being the subject of a receivership; or

(f) has been the subject of any public criticisms by any statutory or regulatory authority (including any recognised professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

6.6 Michael Neville was a director at the time, or within twelve months, of the following companies that have gone into receivership, compulsory liquidation, creditors' or partnership voluntary liquidations, administrations, company voluntary arrangements or have entered into any composition or arrangement with its creditors generally or any class of its creditors:

(a) of Oncue Telecommunications Limited until May 2001, and the company entered into a members' voluntary winding up on 28 June 2001;

(b) of Integrated Media Technologies Plc until August 2001, and the company entered into a members' voluntary winding up on 30 October 2001;

(c) a director of Crucial Plan plc when a winding up order was made against the company on 22 April 2009.

6.7 James Ormondroyd was a director of Tornado Entertainment Limited ("TEL") when a winding up order was made by the High Court on 27 November 2002. On 12 December 2002, a liquidator was appointed in respect of TEL.

6.8 Michael Jackson was appointed a director of Wimbledon 123 Limited on 26 June 2006 and resigned as a director on 12 March 2007. The company was voluntarily dissolved following a solvent liquidation on 20 November 2007. Michael Jackson was appointed a non-executive director of Steve Dudman Plant Limited on 1 November 1995. The company went into administration in 1998 and a liquidator was appointed on 5 October 2005. The company was dissolved on 7 January 2006 via a compulsory winding up and the deficiency to creditors was approximately £400,000. Michael Jackson was appointed a director of Pinco 1421 Limited on 6 June 2003, the company was voluntarily dissolved following a solvent liquidation on 25 November 2003. Michael Jackson was appointed a director of Travelstore.com Group plc on 15 September 2000. The company went into voluntary liquidation on 16 December 2003 and was dissolved on 5 August 2005. There was no deficiency to creditors when the company was dissolved. Michael Jackson was appointed a director of Medialoom Limited on 23 December 1999. The company entered into creditors voluntary liquidation on 9 July 2001 and the company was dissolved on 14 January 2006. The statement of affairs as at 9 July 2001 showed the estimated deficiency to unsecured creditors to be £244,362. Michael Jackson was appointed a director of Planit Employee Incentive Trustees Limited on 16 May 2001. The company was voluntarily dissolved following a solvent liquidation on 9 August 2005. Mr Jackson was appointed a director of Interbizz Financial Systems Limited on 23 August 2001. The company went into administrative receivership on 10 April 2003 and the deficiency to creditors was approximately £1.6 million, of which £1.3 million relates to amounts due to investors.

6.9 Roger Allsop was a director of Gen – Tech Engineering Limited at the time it entered into a creditors' voluntary liquidation on 18 January 1993, with an estimated deficiency to creditors of £300,910.

6.10 Details of the average number of the Netcall Group's employees for each of the three financial years ended 30 June 2009 are as follows:

Year ended 30 June	*2007*	*2008*	*2009*
Customer services and development	10	10	7
Administration	6	6	6
Sales and marketing	9	10	10
Total	25	26	23

6.11 Details of the average number of Telephonetics Group's employees (including directors) for each of the three financial years ended 30 November 2009:

	2007	*2008*	*2009*
Operations	24	26	33
Research and development	11	12	19
Sales and Marketing	40	36	40
General and administration	17	17	19
Total	92	91	111

7. Directors' and other interests

7.1 The voting rights held (within the meaning of rule 5 of the Disclosure and Transparency Rules), directly or indirectly, by the Netcall Directors and Proposed Netcall Directors in the issued share capital of the Company as at the date of this document and as they are expected to be immediately following admission of the New Netcall Shares are/will be as follows:

Director	*Number of Netcall Shares (as at the date of this document)*	*Percentage of issued Netcall Shares (as at the date of this document)*	*Number of Netcall Shares (as at the date Admission of the New Netcall Shares)*	*Percentage of issued Netcall Shares (as at the date of Admission of the New Netcall Shares)*
Roger Allsop	1,250,000	1.95	1,250,000	1.03
Michael Jackson	800,000	1.25	800,000	0.66
Henrik Bang	930,000	1.45	930,000	0.76
Michael Neville	nil	nil	247,548	0.20
James Ormondroyd	nil	nil	nil	nil
Mark Brooks	nil	nil	3,972,358	3.26

7.2 Details of the total number of options granted to the Netcall Directors under the Netcall Share Option Schemes outstanding as at 11 June 2010 (being the latest practicable date prior to the publication of this document) are as follows:

Netcall Unapproved Scheme:

Name	*Date of grant*	*Exercise price per Netcall Share (pence)*	*Number of Netcall Shares under option*	*Exercise period*
Henrik Bang	02.06.09	5	3,370,000	Before 30.01.15[1]
Roger Allsop	15.02.02	20	100,000	15.02.04 – 15.02.12
Roger Allsop	27.01.03	10	100,000	Before 27.01.13

1 The option shall cease to be exercisable, and shall lapse, 48 hours after the time at which the accounts of the Company for the financial year ended 30 June 2014 are published on a regulatory information service.

Netcall 2000 EMI Scheme:

Name	*Date of grant*	*Exercise price per Netcall Share (pence)*	*Number of Netcall Shares under Option*	*Exercise period*
Henrik Bang	23.02.04	25	400,000	Before 26.02.14

7.3 Save as disclosed above, none of the Netcall Directors nor any of the Proposed NetCall Directors nor any member of their respective immediate families or any persons connected with them (within the meaning of section 252 of the Act) holds or is beneficially or non-beneficially interested, directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company or any of its subsidiary undertakings.

7.4 In addition to the interests of the Netcall Directors set out in paragraphs 7.1 to 7.3 above, as at 11 June 2010 (being the latest practicable date prior to the publication of this document), insofar as is known to the Company, the following persons held, or will at admission of the New Netcall Shares hold, voting rights (within the meaning of rule 5 of the Disclosure and Transparency Rules) in 3 per cent. or more of the issued share capital of the Company:

Name	*Number of Netcall Shares (as at the date of this document)*	*Percentage of issued Netcall Shares (as at the date of this document)*	*Number of New Netcall Shares (as at the date of Admission of the New Netcall Shares)*	*Percentage of issued New Netcall Shares (as at the date of Admission of the New Netcall Shares)*
ISIS	—	—	18,421,052	15.12
Tartan Investment Partners L.P.[1]	12,777,276	19.90	12,777,176	10.49
Gartmore UK & Irish Smaller Companies Fund[1]	250,000	0.39	250,000	0.21
Anthony McKay[2]	—	—	6,242,981	5.12
William Burgar[3]	—	—	6,196,736	5.09
Bluehone Investors LLP	5,915,242	9.21	5,915,242	4.86
J Patoff	4,149,411	6.46	4,149,411	3.41
Portside Holdings Limited	3,500,000	5.45	3,500,000	2.87
Edenfield Investments Limited	2,841,362	4.43	2,841,362	2.33
Jeffrey Rubins	2,970,000	4.63	2,970,000	2.44
Mark Brooks	—	—	3,972,358	3.26
Octopus	—	—	3,947,368	3.24

1 Held within Gartmore Investment Management Ltd

2 Based on 20,288,889 Telephonetic Shares held by Anthony McKay, including the 657,895 Telephonetics Shares over which options were granted by Anthony McKay to Cineworld Cinemas Limited which expire on or around 7 May 2012

3 Based on 20,138,889 Telephonetics Shares held by William Burgar, including 657,895 Telephonetics Shares over which options were granted by William Burgar to Cineworld Cinemas Limited which expire on or around 7 May 2012

7.5 Assuming all in-the-money options over Telephonetics Shares are exercised, save as disclosed in paragraph 7.4 above, there are no persons, so far as the Company is aware, who hold, (or will immediately following Admission of the New Netcall Shares hold) voting rights (within the meaning of rule 5 of the disclosure and Transparency Rules) in 3 per cent. or more of the Company's issued share capital, nor, so far as the Company is aware, are there any persons who at the date of this document or immediately following Admission of the New Netcall Shares, directly or indirectly, jointly or severally, exercise or could exercise control over the Company.

7.6 Save as disclosed in this document, there are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in control of the Company.

7.7 The Company's share capital consists of one class of ordinary shares with equal voting rights (subject to the Company's articles of association). No major shareholder of the Company has any different voting rights from the other shareholders.

7.8 Save as disclosed in this document, no Netcall Director or Proposed Netcall Director is or has been interested in any transactions which are or were unusual in their nature or conditions or significant to the business of the Netcall Group or the Enlarged Group during the current or immediately preceding financial year or which were effected during any earlier financial year and remain in any respect outstanding or unperformed.

7.9 There are no outstanding loans or guarantees provided by the members of the Netcall Group or the Enlarged Group or to or for the benefit of any of the Netcall Directors or Proposed Netcall Director.

7.10 Save as disclosed in this document, there have been no related party transactions of the kind set out in the Standards adopted according to the Regulation (EC) No 1606/2002 that the Company has entered into since 30 June 2006.

7.11 No Netcall Director or Proposed Netcall Director nor any member of his immediate family nor any person connected with him (within the meaning of section 252 of the Act) has a Related Financial Product (as defined in the AIM Rules) referenced to Netcall Shares.

8. Netcall Directors' and Proposed Netcall Directors' remuneration and service agreements

8.1 Pursuant to the terms of a letter of engagement with the Company dated 23 March 2009, Michael Jackson has agreed to serve as Chairman for an annual fee of £50,000. This appointment is an initial term of three years but will terminate automatically if Mr Jackson is removed from office by a resolution of the Netcall Shareholders or is not re-elected to office.

8.2 Pursuant to the terms of a letter of engagement with the Company dated 23 March 2009 Roger Allsop agreed to serve as a non-executive director for an annual fee of £20,000. This appointment is for an indefinite term subject to six months notice but will terminate automatically if Mr Allsop is removed from office by a resolution of the Netcall Shareholders or is not re-elected to office. It is anticipated that Mr Allsop's annual fee from the Effective Date will increase to £24,000.

8.3 Henrik Bang is employed as a Netcall Director pursuant to the terms of a service agreement with the Company dated 30 October 2003. The agreement is terminable by either party on not less than 12 months' written notice. Mr Bang is paid a basic annual salary of £175,000 and is entitled to receive a performance related bonus in the event that the Netcall Group achieves certain performance objectives. His basic salary and bonus are subject to annual review by the Netcall Board. In addition, he is entitled to membership of the Netcall Group health and death in service schemes and receives a contribution of 7.5 per cent. of his basic salary to a personal pension plan of his choice. Mr Bang also receives an annual car allowance of £9,000. Mr Bang is subject to certain non-competition and non-solicitation covenants for a period of 12 months' following the termination of his employment. The agreement is governed by English law.

8.4 With effect from the Scheme becoming effective, Mr James Ormondroyd, Mr Mark Brooks and Mr Michael Neville will be appointed to the Netcall Board on the terms set out below.

(a) Mr Ormondroyd has entered into a new service agreement with Netcall dated 1 June 2010, conditional upon the Scheme becoming effective, which will supersede the terms of his service agreement with Telephonetics. Under this service agreement, he will be employed as the Group Finance Director of the Enlarged Group. His start date for statutory continuity is 18 April 2005. The service agreement is terminable by either party on 12 months' prior notice.

Mr Ormondroyd will be paid a basic annual salary of £137,500 per annum. He will also receive a company car allowance of £13,500. He will be entitled to a pension contribution to his personal pension plan of 2.5 per cent. of basic salary, with Netcall matching any additional contributions made by Mr Ormondroyd up to a maximum of 10 per cent. of basic salary. Mr Ormondroyd and his family will be entitled to private medical insurance.

Mr Ormondroyd will be entitled to a discretionary annual bonus of up to 50 per cent. of basic salary, and a guaranteed bonus of 50 per cent. of basic salary in the event of a change of control of Netcall. Mr Ormondroyd has agreed to forfeit his change of control entitlements under the service agreement following the introduction of, and his participation in, a long-term incentive plan.

(b) Mr Brooks has entered into a new service agreement with Datadialogs Limited dated 1 June 2010, conditional upon the Scheme becoming effective. Under the service agreement, he will be employed as a director of Datadialogs Limited. The service contract is for a fixed period of six months, and thereafter is terminable by either party on one month's prior notice.

Mr Brooks will be paid a basic annual salary of £96,000 per annum and will not be entitled to any pension contributions or other benefits, other than holidays, medical insurance and sick pay.

Pursuant to the terms of a letter of appointment dated 1 June 2010, Mark Brooks has agreed to serve as a non-executive director of Netcall conditional on the Scheme becoming effective. The appointment is for a fixed period of six months, and thereafter is terminable by either party on one month's prior notice. There are no additional fees payable in respect of this appointment.

(c) Pursuant to the terms of a letter of appointment dated 1 June 2010, Michael Neville has agreed to serve as a non-executive director of Netcall, conditional on the Scheme becoming effective. The appointment is terminable by either party on 12 months' prior notice. Mr Neville will be paid fees of £24,000 per annum. He will also be entitled to reimbursement of all expenses reasonably incurred in performance of his duties, which includes legal expenses reasonably incurred in taking legal advice independent of the board of directors of Netcall.

All of the Telephonetics Directors' service contracts and non-executive directors' letters of appointment are governed by English law.

James Ormondroyd is currently employed by Telephonetics as Finance Director and Company Secretary under the terms of a service agreement dated 7 July 2005, as amended by a deed of amendment dated 14 November 2007.

Mr Neville and Mr Brooks are engaged as non-executive directors of Telephonetics pursuant to letters of appointment dated 7 July 2005 and 10 March 2008 respectively, and, in the case of Mr Brooks only, a letter amending the terms of appointment dated 5 March 2009. Both Mr Neville and Mr Brooks have entered into letters of resignation and compromise agreements with Telephonetics, conditional upon the Scheme becoming effective, waiving all rights and claims against the Telephonetics Group in respect of their non-executive directorships.

8.5 Save as disclosed in this document there are no service agreements or agreements for the provision of services existing or proposed between the Netcall Directors or the Proposed Netcall Directors on the one hand and the members of the Enlarged Group on the other.

8.6 In the financial year ended 30 June 2009 (being the last completed financial year of the Company) the aggregate remuneration paid, including pension contributions and benefits in kind granted to the Netcall Directors, was £397,800.

8.7 On the basis of the arrangements in force at the date of this document it is estimated that the aggregate remuneration payable including pension contributions and benefits in kind granted to the Netcall Directors for the year ending 30 June 2010 (being the current financial year of the Company) will be £270,640.

9. The Share Option Schemes

9.1 Netcall 2000 EMI Scheme

Options have been granted pursuant to a number of individual EMI agreements on substantially the same terms between 2000 and 2005.

(a) *Exercise price*

Options are granted at an exercise price being the mid-market closing price on AIM on the business day next preceding the date of grant of the option and specified in the option agreement.

(b) *Exercise and exchange of options*

Options can usually be exercised once vested over time.

In the event of a change of control, options may be exercised in full within six months of the change of control, or in the event of a reconstruction within six months following the date on which the court sanctions the scheme of arrangement, after which in either case to the extent unexercised the options shall lapse. On a compulsory acquisition, options will vest in full and remain exercisable throughout any period during which the offeror remains bound to acquire Netcall Shares.

If a resolution is proposed for a demerger or winding up options can be exercised to the extent vested at any time from the date of the notification of the meeting until the relevant resolution is passed.

The Netcall board may in its discretion determine that any option may be exercised to the extent vested within 40 days following Netcall ceasing to meet the trading requirements for EMI.

Options shall be exercised by notice in writing served on Netcall by the option holder and accompanied by payment of the exercise price and if applicable the amount of any tax liability arising. Netcall shall issue or procure the transfer of shares to the option holder within 30 days of exercise.

(c) *Term of options*

Options may not be exercised after the tenth anniversary of the date of grant.

(d) *Cessation of employment*

If an option holder's employment terminates for a good leaver reason (retirement, injury, disability, the employer company ceasing to be a member of the group, or the employment of the option holder being transferred out of the group) options can be exercised to the extent vested for 40 days following cessation, after which they shall lapse.

If employment terminates as a result of death, options can be exercised to the extent vested by the option holder's personal representatives during the period of twelve months from the date of death. Where employment ceases for any other reason, options shall cease to be exercisable immediately and lapse within one month of cessation unless the board of directors determines otherwise during that period.

One of the individuals has options which can be exercised in full for twelve months following cessation of employment resulting from injury, ill health or disability and death and to the extent vested for twelve months following cessation of employment for any other reason other than resignation or termination for a material breach of contract.

(e) *Adjustments*

In the event of alteration of Netcall's share capital by way of capitalisation or rights issue or sub-division, consolidation or reduction, or any other variation of capital, the Netcall Directors may adjust the number of shares subject to an option and the exercise price of an option provided that the auditors confirm in writing that the adjustment is in their opinion fair and reasonable, and provided that the exercise price is not reduced below the nominal value of a share.

(f) *Rights attaching to shares*

All shares allotted under these options will rank *pari passu* with all other Netcall Shares for the time being in issue, save as regards any rights arising by reference to a record date prior to the date of allotment. Application will be made for permission for any such Netcall Shares to be admitted to trading on AIM.

(g) *Amendments*

The option agreement may not be varied unless the variation is in writing and signed by the parties to the original agreement. No amendment to the advantage of the option holder may be made unless it is approved by the company in general meeting in advance, provided that no such approval will be required for a minor amendment to benefit administration, or to maintain favourable tax, exchange control or regulatory treatment for the option holder or a group company.

(h) *Income tax and national insurance*

Any income tax and employee's national insurance contributions arising on exercise of the options is the responsibility of the option holder, and the option holder indemnifies Netcall in respect of these liabilities. Most of the option agreements also provide an indemnity for employer's national insurance although one does not. The option holder is also required to make such arrangements as are required by Netcall to meet the tax liability including appointing Netcall as its agent for the sale of sufficient shares as will satisfy the tax liability or making a joint election with the employer company for the transfer of liability for employer's secondary national insurance contributions to the option holder.

9.2 Netcall Unapproved Schemes

Two individuals have been granted a total of three unapproved options pursuant to individual unapproved option agreements. The provisions of two of the unapproved options conform substantially to those of the Netcall 2000 EMI Scheme as summarised above (save that, as these options are unapproved, income tax and employee's and employer's national insurance contributions will be payable on exercise, and provision is made for the amount of these liabilities to be recovered from the option holders). The third unapproved option is on the terms referred to below.

(a) *Exercise price*

The exercise price is specified in the option agreement and is five pence per share.

(b) *Exercise of options*

The option is exercisable on the earlier of the achievement of a share price target or on a merger or "sale of the business", being a sale of 50 per cent. of the shares in Netcall's subsidiary company Netcall Telecom Limited provided that the Company's share capital reaches a target level at that time.

In the event of a takeover, the option may be exercised in full within six months of the change of control provided that the price per share offered achieves the target set out in the option agreement. The option may be exercised in full for six months following the date on which the court sanctions a reconstruction or scheme of arrangement, after which to the extent unexercised the option shall lapse. On a compulsory acquisition, the option will vest in full and remain exercisable during any period during which the offeror remains bound to acquire shares.

If a resolution is proposed for a demerger, the option can be exercised in full at any time from the date of the notification until the relevant resolution is passed. On a winding-up, the option can be exercised in full from the date of the notification until either the resolution is passed or the meeting is adjourned.

The option shall be exercised by notice in writing served on Netcall by the option holder and accompanied by payment of the exercise price and the amount of any tax liability arising. Netcall shall then transfer shares to the option holder within 30 days of exercise.

(c) *Term of options*

The option must be exercised prior to the time which is 48 hours after the time at which the accounts for the financial year ended 30 June 2014 are published on a regulatory information service.

(d) *Cessation of employment*

The option can be exercised in full for twelve months following cessation of employment resulting from injury, ill health or disability and death and to the extent vested for twelve months following cessation of employment for any reason other than resignation or termination due to a material breach of contract.

In the event of cessation of employment as a result of resignation (other than involving a material breach of contract) the option ceases to be exercisable immediately but lapses three months following cessation, unless the board determines otherwise during that period.

(e) *Adjustments*

In the event of alteration of Netcall's share capital by way of capitalisation or rights issue or sub-division, consolidation or reduction, or any other variation of capital, the directors may adjust the number of shares subject to the option, or the exercise price of the option provided that except in the case of a capitalisation the auditors confirm in writing that the adjustment is in their opinion fair and reasonable, and the exercise price is not reduced below the nominal value of a share.

(f) Rights attaching to shares

All Netcall Shares allotted under the option will rank *pari passu* with all other Netcall Shares for the time being in issue, save as regards any rights arising by reference to a record date prior to the date of allotment. Application will be made for permission for any such Netcall Shares to be admitted to trading on AIM.

(g) Amendments

The option agreement may not be varied unless the variation is in writing and signed by the parties to the original agreement. No amendment to the advantage of the option holder may be made unless it is approved by the company in general meeting in advance, provided that no such approval will be required for a minor amendment to benefit administration, or to maintain favourable tax, exchange control or regulatory treatment for the option holder or a group company.

(h) Income tax and national insurance

Income tax and employee's and employer's national insurance contributions will be payable on exercise. There is provision in the option agreement for the amount of these liabilities to be recovered from the option holder.

10. Taxation

The following statements are intended only as a general guide current as at 11 June 2010 (being the latest practicable date prior to publication of this document) to United Kingdom tax legislation and to the current practice of the HMRC and do not constitute tax advice. They do not reflect any changes that might be introduced in the Budget on 22 June 2010. The statements may not apply to certain categories of shareholder, such as dealers in securities. Levels and bases of taxation are subject to change. Any person who is in any doubt as to his tax position or who is resident for tax purposes outside the United Kingdom is strongly recommended to consult his professional advisers immediately.

10.1 Stamp Duty and Stamp Duty Reserve Tax

Save in relation to depository receipt arrangements or clearance services, where special rules apply, no charge to stamp duty or stamp duty reserve tax ("SDRT") should arise on the issue of new Netcall Shares pursuant to the Acquisition or Placing or on their registration in the names of applicants.

A subsequent transfer on sale of Netcall Shares held in certificated form will ordinarily be subject to stamp duty on the instrument of transfer, generally at the rate of 0.5 per cent. of the amount or value of the consideration, rounded up to the nearest £5.

Paperless transfers of shares within CREST will be liable to SDRT rather than stamp duty (generally at a rate of 0.5 per cent.) and SDRT on the relevant transactions settled in CREST or reported through CREST for regulatory purposes will generally be settled by CREST.

Special rules apply to market intermediaries, dealers and certain other persons and professional advice should be sought if these rules apply.

10.2 Dividends

The United Kingdom taxation implications relevant to the receipt of dividends on Netcall Shares are as follows:

There is no United Kingdom withholding tax on dividends. Individual holders of Netcall Shares will be taxable on the total of the dividend and the related notional tax credit ("gross dividend"), which will be regarded as the top slice of the individual's income.

The notional tax credit on dividends is one-ninth of the dividend paid (or 10 per cent. of the aggregate of the dividend and the tax credit). For individuals, the income tax rates on dividend income are such that basic rate taxpayers will have no further tax liability on a dividend receipt. Higher rate taxpayers pay tax on dividends at 32.5 per cent. so that a higher rate taxpayer receiving a dividend of £90 will be treated as having gross income of £100 (the net dividend of £90 plus a tax credit of £10) and after allowing for the tax credit of £10 will have a further £22.50 liability. The 2009 Finance Act introduced a new higher rate of 42.5 per cent. tax from 6 April 2010 on dividends for UK trusts and for individuals with income in excess of £150,000. Where a taxpayer whose income is above £150,000 receives a dividend of £90, they would have a further £32.50 liability after allowing for the tax credit of £10.

Generally, holders of Netcall Shares will not be entitled to reclaim the tax credit attaching to any dividends paid. This includes UK resident shareholders who do not pay income tax or whose liability to income tax on the dividend and related tax credit is less than the tax credit, including pension funds, charities or certain individuals.

Following changes introduced by the Finance Act 2009, dividends received by UK companies after 1 July 2009 are likely to be exempt from taxation. However there are detailed conditions to be met depending upon various factors including (but not limited to) the size of the recipient company, the nature and size of their shareholding, and the profits out of which the dividends are paid. UK companies should seek separate advice on this point from their professional advisers.

Netcall Shareholders resident for tax purposes outside the UK may be subject to foreign taxation on dividends received on their New Netcall Shares or in respect of other transactions relating to the shares under the tax law of their country of residence. Such shareholders will not be subject to any further UK tax on their dividends where they have no other sources of income from the UK and do not have a UK representative or, in the case of trustees, there are no UK resident beneficiaries of the trust. Entitlement to claim repayment of any part of a tax credit, however, will depend, in general, on the existence and terms of any double tax convention between the United Kingdom and the country in which the holder is resident (however, given the rate of the tax credit on dividends, any such repayment may not be significant). Non-UK resident shareholders should consult their own tax advisers as soon as possible concerning their tax liability on dividends received; what relief, credit or entitlement to a refund of any tax credit may be available in the jurisdiction in which they are resident for tax purposes; or other taxation consequences arising from their ownership of Netcall Shares.

10.3 Disposal of shares acquired

A holder of Netcall Shares who is an individual resident or ordinarily resident for tax purposes in the UK who sells or otherwise disposes of his Netcall Shares may, depending on the circumstances, incur a liability to UK tax on any capital gain realised at a rate of 18 per cent subject to the availability of any losses, reliefs or annual exemption.

Corporate holders of Netcall Shares within the charge to UK corporation tax may be liable to corporation tax at their marginal rate on any chargeable gains realised on the disposal of Netcall Shares but will generally be entitled to indexation allowance in respect of these Netcall Shares up until the date of disposal. Substantial Shareholding Exemption may be available to exempt the chargeable gain from corporation tax, where the corporate shareholder has a holding of at least 10 per cent. of the Netcall Shares, together with an entitlement to at least 10 per cent. of the profits available for distribution and at least 10 per cent. of the assets on a winding up and meets certain other conditions.

The position may differ for certain categories of shareholder, such as dealers in securities, or where the Netcall Shares are otherwise held as an asset of a financial trade. Corporate shareholders should seek specific advice from their tax adviser.

A holder of Netcall Shares who is not resident or ordinarily resident for tax purposes in the UK will not normally be liable for UK tax on capital gains realised on the disposal of his Netcall Shares unless at the time of the disposal such shareholder carries on a trade (which for this purpose includes a profession or vocation) in the UK through a permanent establishment and such Netcall Shares are to have been used, held or acquired for the purposes of such UK permanent establishment. However, they should consult their own tax adviser as to the tax implications of their specific circumstances.

A shareholder who is an individual and who has, on or after 17 March 1998, ceased to be resident and ordinarily resident for tax purposes in the UK for a period of less than five years of assessment and who disposes of Netcall Shares during that period may be or become liable to UK taxation of chargeable gains (subject to any available exemption or relief) upon the shareholder's return to the UK. Non UK resident shareholders should consult their own tax advisers concerning their tax liability on disposal proceeds and what relief or credit they may be entitled to in the jurisdiction in which they are resident for tax purposes, or other taxation consequences arising from their ownership of the Netcall Shares.

10.4 Tax reliefs

Following the Finance Act 2008, capital gains tax business asset taper relief has been abolished. Subject to a lifetime limit, Entrepreneurs' Relief may be available to reduce the capital gain tax liable to 10 per cent. on a disposal of Netcall Shares by a shareholder who is an officer or employee of the Company and who meets certain other conditions, including holding at least 5 per cent. of the ordinary share capital and voting power of the Company for a period of at least twelve months up to the date of disposal. A holding in the shares of the Company may qualify for other reliefs such as capital gains tax gift relief and inheritance tax business property relief. However, individuals should seek confirmation as to whether any relief is available in their own particular circumstances at the relevant time.

Persons who are not resident in the United Kingdom should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident.

These comments are intended only as a general guide to the current tax position in the United Kingdom as at the date of this document. The comments assume that Netcall Shares are held as an investment and not as an asset of a financial trade and that any dividends paid are not foreign income dividends. If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than the United Kingdom, you should consult your professional adviser.

11. Material contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group (i) within the period of two years immediately preceding the date of this document and which are, or may be, material or (ii) which contain any provision under which any member of the Enlarged Group has an obligation or entitlement to the Enlarged Group as at the date of this document:

11.1 Telephonetics Group

(a) The Inducement Fee Agreement and the Implementation Agreement.

(b) A sale and purchase agreement was entered into on 6 February 2009 between Ian Kindred, David Waldron and Stephen White and Telephonetics (and amended by deeds of amendment and restatement dated 1 June 2009, 10 September 2009, 1 April 2010 and 28 May 2010 pursuant to which Telephonetics acquired shares in Datadialogs Limited (formerly Eden Origin Limited). This agreement, together with the agreement described at paragraph 11.1(d), enabled Telephonetics to acquire the entire issued share capital of Datadialogs Limited. In accordance with the agreement Telephonetics has paid the bulk of the consideration but the agreement also contains an obligation to pay contingent consideration based on an earn out arrangement. £200,000 in cash has already been paid as Datadialogs Limited achieved revenues of £700,000 within the first year following completion of the acquisition. Pursuant to the deed dated 1 April 2010, David Waldron waived all and any rights he had to payment of any further contingent consideration. Up to a further £1.05 million is payable in a mixture of cash and shares in respect of the two years following completion of the acquisition on the achievement of revenue targets of between £1.56 million and £10 million over that period.

Pursuant to the deed of amendment entered into on 27 May 2010, in the event of a Change of Control (as defined) before 1 March 2011 any deferred consideration shall be paid to the sellers as follows: In relation to the Third Milestone Payment (as defined), in equal proportions of cash and such shares in the Offeror (as defined) and cash which they would have been entitled to receive under the terms of the Offer (as defined) if they held such Telephonetics Shares as they would otherwise have been entitled to in respect of the deferred consideration earn out on the date or record date (as applicable) of the Offer, subject to such Telephonetics Shares being attributed a value of not less than £0.11; and In relation to the Fourth Milestone Payment (as defined) in equal proportions of cash and such shares in the Offeror (as defined) which they would have been entitled to under the terms of the Offer (as defined) subject to each share in the Offeror being attributed a value based on the average mid market price over the 90 days preceding the Fourth Turnover Target (as defined) or £0.19 if the mid market price is less than £0.19.

(c) A sale and purchase agreement dated 6 February 2009 between Meridian Group International Inc pursuant to which Telephonetics acquired Meridian Group International Inc's minority shareholding in Eden Origin Limited for £200,000.

(d) James Ormondroyd and Telephonetics have entered into a deed of surrender dated 28 May 2010. Under this deed, Mr Ormondroyd agrees to surrender and releases Telephonetics from any obligations to transfer shares in respect of the unapproved options and EMI options over Telephonetics Shares which he holds. This deed of surrender is conditional on the Court sanctioning the Scheme.

11.2 Netcall Group

(a) A lock-in agreement dated 1 June 2010 between Evolution Securities, Netcall and each of Anthony Mackay, William Burgar and Mark Brooks as summarised in paragraph 10 of Part I of this document.

(b) The Implementation Agreement.

(c) The Inducement Fee Agreement.

(d) A sale and purchase agreement dated 30 September 2009 between David Noel Jones and Mark Lawrence Norton (the "**Q-Max Vendors**") and Netcall (the "**Q-Max Agreement**") whereby, amongst other things, Netcall agreed to purchase the entire issued share capital of Q-Max Systems Limited from the Q-Max Vendors. The acquisition was completed on 30 September 2009. On completion of the acquisition, Netcall also purchased the partnership assets of the Q-Max Partnerships Vendors (as defined in (e) below). The total cash consideration for those acquisitions comprised cash of £2,223,000 and the issue of 1,596,958 Netcall Shares. The Q-Max Agreement contains warranties and indemnities and restrictive covenants given by the Q-Max Vendors in favour of Netcall customary for a transaction of this nature.

(e) A business asset transfer agreement dated 6 October 2009 between Mark Lawrence Norton and Caroline Ackroyd, David Noel Jones and Jill Jones (together the "**Q-Max Partnership Vendors**") and Netcall (the "**Q-Max BTA**") whereby Netcall agreed to purchase certain business and assets from the Q-Max Vendors. The Q-Max BTA contains warranties and restrictive covenants given by the Q-Max Vendors to Netcall customary for a transaction of this nature.

(f) A placing agreement dated 1 June 2010 and made between Netcall and Evolution Securities (the "**Placing Agreement**") whereby Evolution Securities has agreed, subject to certain conditions, to act as agent for Netcall and to use its reasonable endeavours to procure placees to subscribe for the Placing Shares at 19 pence per Placing Share. The Placing Agreement is conditional upon, *inter alia*, admission of the Placing Shares occurring on or before 8.00 a.m. on 27 July 2010 (or such later date as Netcall and Evolution may agree, being not later than 30 July 2010), the approval by Telephonetics Shareholders of the resolutions necessary to approve the Scheme and implement the Acquisition to be proposed at the Telephonetics Court Meeting and the Telephonetics General Meeting, the passing of the resolutions set out in the notice of the Netcall General Meeting by Netcall Shareholders and the grant of the First Court Order. The Placing Agreement contains warranties from Netcall in favour of Evolution Securities in relation to, *inter alia*, the accuracy of the information in the Announcement and other matters relating to the Netcall Group, the Telephonetics Group and their respective businesses. In addition, Netcall has agreed to indemnify Evolution Securities in respect of certain liabilities it may incur in respect of the Placing. Under the Placing Agreement and subject to it becoming unconditional and not being terminated in accordance with its terms, Netcall has agreed to pay Evolution Securities a commission of 3.75 per cent. on the first £3.0 million of value at the Placing Price of the Placing Shares together with any applicable VAT. Additionally, Netcall has agreed to pay all of Evolution Securities' reasonable costs and expenses (including any applicable VAT) of the Placing.

(g) A facility agreement dated 1 June 2010 between National Westminster Bank plc (the "**Bank**") and Netcall the ("**Facility Agreement**") whereby the Bank will, conditional upon completion of the Acquisition, make available a £4,000,000 bridging credit facility to Netcall, as borrower. Borrowings will accrue interest at a margin of 2.5 per cent. over the Bank's base rate together with an arrangement fee of £75,000 and a commitment commission of 2.5 per cent per annum on any part of the facility which remains undrawn from time to time. Netcall must also reimburse the Bank's costs and expenses in relation to the Facility Agreement. The Facility Agreement contains warranties, representations, undertakings and events of default typical for a facility agreement of its nature. The facility's final maturity date is in 14 days after the date the bridging facility is drawn down. Netcall's obligations under the Facility Agreement are secured by debentures and inter company composite guarantees granted by Netcall and its subsidiaries (other than certain companies) from time to time.

(h) Netcall has bought back a number of Netcall Shares. The buy-backs were as follows:

Date	*Number of shares bought back*	*Price per share (£)*	*Amount paid(£)*
30 October 2008	500,000	0.105	52,500.00
6 November 2008	280,000	0.116	32,480.00
17 November 2008	2,970,206	0.12	356,424.72
Total			441,404.72

12. Working capital

In the opinion of the Netcall Directors and the Proposed Netcall Directors having made due and careful enquiry, taking into account the net proceeds of the Placing and the bank and other facilities available to the Enlarged Group, the working capital available to the Enlarged Group will be sufficient for its present requirements, that is for at least the next twelve months from the date of Admission of the New Netcall Shares.

13. Litigation

No member of the Netcall Group or the Telephonetics Group is or has been involved in any governmental, legal or arbitration proceedings which may have or have had during the last 12 months preceding the date of this document, a significant effect on the financial position or profitability of Netcall Group or, as the as may be, the Telephonetics Group nor, so far as the Company is aware, are any such proceedings pending or threatened.

14. Consents

14.1 Evolution Securities Limited of 100 Wood Street. London EC2V 7AN is authorised and regulated in the United Kingdom by the Financial Services Authority. Evolution Securities has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which it appears.

14.2 Brewin Dolphin Limited of 12 Smithfield Street, London EC1A 9BD is authorised and regulated in the United Kingdom by the Financial Services Authority. Brewin Dolphin has given and has not withdrawn its written consent to the issue of this document with the inclusion of its name and the references to it in the form and context in which it appears.

15. General

15.1 (a) Save as described in the paragraph headed "Netcall – current trading" in Part I of this document, there has been no significant change in the financial or trading position of Netcall Group since 31 December 2009, being the end of the period to which the latest interim unaudited consolidated accounts of the Netcall Group relate.

(b) Save as described in the paragraph headed "Telephonetics – current trading" in Part I of this document, there has been no significant change in the financial or trading position of the Telephonetics Group since 30 November 2009, being the end of the period to which the latest audited consolidated accounts of the Telephonetics Group relate.

15.2 Assuming the Scheme becomes effective, the total costs and expenses payable by the Enlarged Group in connection with the Acquisition and the Placing (including professional fees, the costs of printing and the fees payable to the Registrars and Evolution Securities) are estimated at approximately £1.4 million, excluding VAT.

15.3 Save as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has received, directly or indirectly, within the 12 months preceding the date of this document or entered into contractual arrangements to receive, directly or indirectly, from the Company on or after Admission of the Placing Shares or the New Netcall Shares:

(a) fees totalling £10,000 or more;

(b) securities where these have a value of £10,000 or more calculated by reference to the Placing Price; or

(c) any other benefit with a value of £10,000 or more at the date of Admission of the New Netcall Shares.

15.4 Information in this document which has been sourced from third parties has been accurately reproduced and so far as the Company is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

15.5 Save as disclosed in this document, the Netcall Directors and the Proposed Netcall Directors are unaware of any exceptional factors which have influenced the Netcall Group's activities and the Telephonetics Group's activities respectively.

15.6 The Netcall Directors are unaware of any environmental issues that may affect the Enlarged Group's utilisation of its tangible fixed assets.

15.7 Save as disclosed in this document, the Netcall Directors and the Proposed Netcall Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Company's prospects for the financial year ending 30 June 2010 or Telephonetics prospects for the financial year ending 30 November 2010 respectively.

15.8 Save as disclosed in this document, there are no investments in progress and there are no future investments on which the Netcall Directors or the Proposed Netcall Directors have already made firm commitments which are significant to the Enlarged Group.

15.9 Save as disclosed in this document, the Netcall Directors and the Proposed Netcall Directors believe that the Enlarged Group is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Enlarged Group's business or profitability.

15.10 The Company will be subject to the provisions of the City Code, including the rules regarding mandatory takeover offers set out in the City Code. Under Rule 9 of the City Code, when (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the City Code), carry 30 per cent. per cent. or more of the voting rights of a company subject to the City Code or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the City Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash, at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding 12 months, for all of the remaining equity share capital of the company

15.11 The Netcall Shares will also be subject to the compulsory acquisition procedures set out in sections 979 to 991 of the Act. Under section 979 of the Act, where an offeror makes a takeover offer and has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. of the shares to which the offer relates and, in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares, that offeror is entitled to compulsorily acquire the shares of any holder who has not acquired the offer on the terms of the offer.

15.12 Since the date of incorporation of the Company, there has been no takeover offer (within the meaning of Part 28 of the Act) for any Netcall Shares.

15.13 The current accounting reference period of the Company will end on 30 June 2010.

15.14 The financial information contained in Part III and Part V of this document does not constitute statutory accounts within the meaning of section 434 of the Act for the Company. The auditors for each of the financial years ended 30 June 2008 and 30 June 2009 were Grant Thornton UK LLP, Chartered Accountants and registered auditors, of Byron House, Cambridge Business Park, Cowley Road, Cambridge, Cambridgeshire CB4 0WZ. The auditors for the financial years ended 30 June 2007 were Deloitte & Touche LLP, Chartered Accountants and registered auditors, of City House, 126-130 Hills Road Cambridge CB2 1RY. A copy of the audited statutory accounts of the Company for each of the financial years ended 30 June 2007, 30 June 2008 and 30 June 2009 has been delivered to the Registrar of Companies in England and Wales. The auditors' reports under section 235 of the Companies Act 1985 and section 495 of the Act (as applicable) on those accounts were unqualified and did not contain any statement under section 237 of the Companies Act 1985 or section 498 of the Act.

15.15 The financial information contained in Part IV and Part V of this document does not constitute statutory accounts within the meaning of section 434 of the Act for Telephonetics. The auditors for Telephonetics for each of the financial years ended 30 November 2007, 30 November 2008 and 30 November 2009 were BDO LLP, Chartered Accountants and registered auditors, of 55 Baker Street, London W1U 7EU. A copy of the audited statutory accounts of Telephonetics for each of the financial years ended 30 November 2007, 30 November 2008 and 30 November 2009 has been delivered to the Registrar of Companies in England and Wales. The auditors' reports under section 235 of the Companies Act 1985 and section 495 of the Act (as applicable) on those accounts were unqualified and did not contain any statement under section 237 of the Companies Act 1985 or section 498 of the Act.

15.16 *Sources of financial information*

Historical financial information relating to Telephonetics has been extracted without material adjustment from the relevant published audited reports and accounts of Telephonetics and the published audited financial statements of Telephonetics for the years ended 30 November 2009, 30 November 2008 and 30 November 2007.

Historical financial information relating to Netcall has been extracted without material adjustment from the relevant published audited reports and accounts of Netcall for the years ended 30 June 2009, 30 June 2008 and 30 June 2007 and the published unaudited interim results of Netcall for the period ended 31 December 2009.

16. Availability of this document

Copies of this document are available free of charge from the Company's registered office and at the offices of Osborne Clarke, One London Wall, London EC2Y 5EB, during normal business hours on any weekday (except for Saturdays, Sundays and public holidays) and will remain available for at least one month after Admission.

Dated 14 June 2010

NOTICE OF GENERAL MEETING

Netcall plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 1812912)

NOTICE IS HEREBY GIVEN THAT a general meeting of Netcall plc (the "**Company**") will be held at the offices of Osborne Clarke, One London Wall, London EC2Y 5EB, at 2.00 p.m. on 8 July 2010 to consider and, if thought fit, to pass the following resolutions of which resolutions 1 and 2 will be proposed as ordinary resolutions of the Company and resolution 3 will be proposed as a special resolution of the Company:

ORDINARY RESOLUTIONS

1. **THAT** the acquisition by the Company of the entire issued share capital of Telephonetics plc ("**Telephonetics**") by way of a scheme of arrangement under Part 26 of the Companies Act 2006 (the "**Act**"), on the terms and subject to the conditions set out in the scheme circular dated 14 June 2010 and sent by Telephonetics to its shareholders (and repeated in the admission document ("**Admission Document**") of the Company dated 14 June of which this notice forms part) (the "**Acquisition**"), be and is hereby approved for the purpose of Rule 14 of the AIM Rules for Companies and the directors of the Company or any duly authorised committee of the directors of the Company be and they are hereby authorised to take all such steps that they consider to be necessary or desirable to effect the Acquisition and to waive, amend, vary, revise or extend (to such extent as shall not constitute a material amendment in the context of the Acquisition as a whole) any such terms and conditions as they may consider appropriate.

2. **THAT,** conditional upon the passing of resolution numbered 1 above and in substitution for any equivalent authority which may have been given to the directors of the Company prior to the date of the passing of this resolution, the directors of the Company be and they are hereby generally and unconditionally authorised pursuant to section 551 of the Act to exercise all powers of the Company to allot shares in the Company, and grant rights to subscribe for or to convert any security into shares of the Company (such shares, and rights to subscribe for or to convert any security into shares of the Company being "**relevant securities**") provided that this authority shall be limited to:

   (a) the allotment of up to 35,256,184 new ordinary shares of 5 pence each in the capital of the Company (having an aggregate nominal value of up to £1,762,809.20) in connection with the Acquisition;

   (b) the allotment of up to 22,368,420 new ordinary shares of 5 pence each in the capital of the Company (having an aggregate nominal value of up to £1,118,421) in connection with the Placing (as defined in the Admission Document); and

   (c) the allotment (otherwise pursuant to sub-paragraphs (a) and (b) above) of relevant securities up to an aggregate nominal amount of £1,069,854,

   and unless previously renewed, revoked, varied or extended, this authority shall expire at the earlier of the date which is 15 months from the date of the passing of this resolution and the conclusion of the next annual general meeting of the Company except that the Company may at any time before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities in pursuance of such an offer or agreement as if this authority had not expired.

SPECIAL RESOLUTION

3. **THAT,** conditional upon the passing of resolutions numbered 1 and 2 above and in substitution for any existing power given to the directors of the Company pursuant to section 571 of the Act, the directors of the Company be and they are empowered pursuant to section 571 of the Act to allot equity securities (as defined in section 560(1) of the Act) and/or sell treasury shares (by virtue of section 573 of the Act) of the Company for cash pursuant to the

authority of the directors of the Company under section 551 of the Act conferred by the resolution numbered 2 above, as if section 561(1) of the Act did not apply to such allotment provided that the power conferred by this resolution shall be limited to:

(a) the allotment of up to 22,368,420 new ordinary shares of 5 pence each in the capital of the Company (having an aggregate nominal value of up to £1,118,421 in connection with the Placing;

(b) the allotment of equity securities and/or sale of treasury shares in connection with an invitation or offer of equity securities to the holders of ordinary shares in the capital of the Company (excluding any shares held by the Company as treasury shares) on a fixed record date in proportion (as nearly as practicable) to their respective holdings of such shares or in accordance with the rights attached to such shares (but subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or as a result of legal or practical problems under the laws of, or the requirements of any regulatory body or any stock exchange in any territory or otherwise howsoever); and

(c) the allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities or sale of treasury shares up to an aggregate nominal value equal to £320,988,

and unless previously renewed, revoked, varied or extended this power shall expire on the earlier of the conclusion of the next annual general meeting of the Company and the date falling 15 months after the date of the passing of this resolution except that the Company may before the expiry of this power make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry and the directors of the Company may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if this power had not expired.

Registered Office:
10 Harding Way
St Ives
Cambridgeshire
PE27 3WR

By order of the Board:

Michael Greensmith
Company Secretary

14 June 2010

Notes:

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), only those members registered in the register of members of the Company at 6.00 p.m. on 6 July 2010 shall be entitled to attend and vote at the Meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
2. A member who is entitled to attend, speak and vote at the Meeting may appoint a proxy to attend, speak and vote instead of him. A member may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares (so a member must have more than one share to be able to appoint more than one proxy). A proxy need not be a member of the Company but must attend the Meeting in order to represent you. A proxy must vote in accordance with any instructions given by the member by whom the proxy is appointed. Appointing a proxy will not prevent a member from attending in person and voting at the Meeting (although voting in person at the Meeting will terminate the proxy appointment). A form of proxy is enclosed. The notes to the form of proxy include instructions on how to appoint the Chairman of the Meeting or another person as a proxy. You can only appoint a proxy using the procedures set out in these Notes and in the notes to the form of proxy.
3. To be valid, a form of proxy, and the original or duly certified copy of the power of attorney or other authority (if any) under which it is signed or authenticated, should reach the Company's registrar, Neville Registrars Limited at Neville House, 18 Laurel Lane, Halesowen B63 3BR, by no later than 2.00 p.m. on 6 July 2010.
4. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Meeting and any adjournment(s) thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
5. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with the specifications of Euroclear UK & Ireland Limited ("Euroclear"), and must contain the information required for such instruction, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, to be valid, be transmitted so as to be received by Neville Registrars by the latest time for receipt of proxy appointments specified in this notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
6. CREST members and, where applicable, their CREST sponsors, or voting service provider should note that Euroclear does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if

the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system provider are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

7. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
8. In the case of joint holders of shares, the vote of the first named in the register of members who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders.
9. A member that is a company or other organisation not having a physical presence cannot attend in person but can appoint someone to represent it. This can be done in one of two ways: either by the appointment of a proxy (described in Notes 2 to 5 above) or of a corporate representative. Members considering the appointment of a corporate representative should check their own legal position, the Company's articles of association and the relevant provision of the Companies Act 2006.

imprima — C102852