

28 September 2007

Phorm, Inc. ('Phorm' or 'the Company')

Interim results for the six month period ended 30 June 2007

Phorm (AIM: PHRM and PHRX), an innovative technology company specialising in behavioural and contextual online advertising, announces its unaudited interim results for the six-month period ended 30 June 2007.

Executive Chairman's statement

I have outlined below our results for the six month period ended 30 June 2007. During this period we have diligently executed our Internet Service Provider (ISP) relationship strategy, underpinned by significant corporate development and fund-raising activity to support the development of our business.

Results and financials

Advertising revenue ceased in the first half of 2007 as the Company committed all of its efforts to implementing its strategy of building relationships with leading ISPs (2006 Revenue: \$1.17 million). Operating losses were \$16.36 million (2006 loss: \$4.68 million), as a result of building our business infrastructure and investing in our core technology, people and systems. The operating loss includes a noncash share based payment charge of \$4.6m, and a charge of \$1.86m in respect of UK National Insurance contributions on share options. Losses after taxation were \$16.30 million (2006 loss: \$4.64 million). Losses per share were \$1.43 (2006: \$0.49).

These are the first results Phorm has reported under International Financial Reporting Standards (IFRS), as is required by the AIM Rules. Previously the Group reported under UK Generally Accepted Accounting Principles (UK GAAP). The Group's date of transition to IFRS is 1 January 2006 which is the beginning of the comparative period for the 2006 financial year. Key accounting policy changes and a full set of IFRS accounting policies are documented later in this report, together with disclosure of certain restatements relating to the prior year.

Strategy and Business update

In June we announced that the Company had entered into Heads of Agreement with a number of ISPs. These Heads of Agreement, which represent substantial opportunities, set forth the basis under which these ISPs intend to deploy Phorm's technology platform. In anticipation of these deployments, we have been bringing on board leading participants within the industry, putting into place technology and processes which will allow us to scale accordingly and contacting key market participants to secure their support. We believe that the lengthy preparation, which has been ongoing, has positioned us to begin rolling out with one or more of our ISP partners in the near term. We are working diligently to realise this objective.

In carrying out this preparation work, we have benefited from considerable support from our investors. An investment of \$5 million by Morgan Stanley Principal Investments in February, and a further institutional share placing in June, which raised approximately \$30 million (before expenses) will facilitate the Company's continued global development.

The first six months of the year have seen significant changes to our corporate structure as the business has continued to mature. We completed a reorganisation of the Company in May and as a result 121Media, Inc. (now known as Phorm UK, Inc.) became a wholly owned subsidiary of Phorm, Inc., a newly formed company. We welcomed David Dorman, Christopher Lawrence and Virasb Vahidi to the Board. I have assumed the responsibilities of Chairman alongside the role of Chief Executive.

We are also delighted to announce that we have appointed leading global professional services firm Deloitte & Touche LLP as auditor to Phorm. Deloitte & Touche's international presence and experience of dealing with successful, fast-growth companies will be of great value to Phorm. We thank H.W. Fisher for their work in the past.

Prospects

We have made considerable progress during the period under review and I am grateful to our Phorm team, investors and advisers for their commitment and contribution. As a result we are able to look to the future with anticipation and optimism.

Kent Ertugrul
Chairman and Chief Executive

**Unaudited consolidated income statement
For the six months ended 30 June 2007**

	6 months ended 30 June 2007 \$	6 months ended 30 June 2006 \$	Year ended 31 December 2006 \$
Continuing operations			
Revenue	-	1,173,803	1,272,254
Cost of sales	(108,658)	(255,137)	(403,306)
Gross profit	(108,658)	918,666	868,948
Administrative expenses	(16,254,000)	(5,596,168)	(12,470,422)
Operating loss	(16,362,658)	(4,677,502)	(11,601,474)
Investment revenues	71,111	44,885	82,312
Finance costs	(5,289)	(9,248)	(16,186)
Loss before taxation	(16,296,836)	(4,641,865)	(11,535,348)
Tax on loss	-	(2,513)	(12,705)
Loss for the year attributable to equity shareholders	(16,296,836)	(4,644,378)	(11,548,053)
Basic and diluted loss per share	(1.43)	(0.49)	(1.13)

Unaudited consolidated statement of changes in equity

Six months ended 30 June 2007 (Unaudited)

	Share capital \$	Share premium \$	Warrants \$	Translation reserve \$	Retained earnings \$	Total \$
1 January 2007	11,217	18,706,233	300,300	(280,896)	(15,512,365)	3,224,489
Loss for the period					(16,296,836)	(16,296,836)
Share-based payments charge					4,604,307	4,604,307
Issue of new shares	637	34,205,092				34,205,729
Exchange differences on translation of overseas operations				(21,871)		(21,871)
Transfer on exercise of warrants		300,300	(300,300)			-
30 June 2007	<u>11,854</u>	<u>53,211,625</u>	<u>-</u>	<u>(302,767)</u>	<u>(27,204,894)</u>	<u>25,715,818</u>

Six months ended 30 June 2006 (Unaudited)

	Share capital \$	Share premium \$	Warrants \$	Translation reserve \$	Retained earnings \$	Total \$
1 January 2006	8,190	6,734,601	584,572	(174,221)	(5,497,445)	1,655,697
Loss for the period					(4,644,378)	(4,644,378)
Share-based payments charge					537,203	537,203
Issue of new shares	1,688	4,346,419				4,348,107
Exchange differences on translation of overseas operations				(20,138)		(20,138)
Transfer on exercise of warrants		83,554	(83,554)			-
30 June 2006	<u>9,878</u>	<u>11,164,574</u>	<u>501,018</u>	<u>(194,359)</u>	<u>(9,604,620)</u>	<u>1,876,491</u>

Unaudited consolidated statement of changes in equity (continued)

Year ended 31 December 2006 (Unaudited)

	Share capital \$	Share premium \$	Warrants \$	Translation reserve \$	Retained earnings \$	Total \$
1 January 2006	8,190	6,734,601	584,572	(174,221)	(5,497,445)	1,655,697
Loss for the period					(11,548,053)	(11,548,053)
Share-based payments charge					1,533,133	1,533,133
Issue of new shares	3,027	11,687,360				11,690,387
Exchange differences on translation of overseas operations				(106,675)		(106,675)
Transfer on exercise of warrants		284,272	(284,272)			
31 December 2006	<u>11,217</u>	<u>18,706,233</u>	<u>300,300</u>	<u>(280,896)</u>	<u>(15,512,365)</u>	<u>3,224,489</u>

**Unaudited consolidated balance sheet
as at 30 June 2007**

	30 June 2007 \$	30 June 2006 \$	31 December 2006 \$
Non-current assets			
Property, plant and equipment	184,476	165,246	128,614
Total non-current assets	<u>184,476</u>	<u>165,246</u>	<u>128,614</u>
Current assets			
Trade receivables	-	236,625	-
Other receivables	694,588	365,496	594,063
Outstanding proceeds due on issue of shares	24,028,467	-	-
Cash and cash equivalents	5,143,740	3,011,070	3,804,771
Total current assets	<u>29,866,795</u>	<u>3,613,191</u>	<u>4,398,834</u>
Total assets	<u><u>30,051,271</u></u>	<u><u>3,778,437</u></u>	<u><u>4,527,448</u></u>
Current liabilities			
Trade payables	(639,313)	(540,752)	(156,736)
Other payables	(3,652,844)	(1,291,743)	(1,095,843)
Obligations under finance leases	(31,993)	(58,148)	(39,077)
Total current liabilities	<u>(4,324,150)</u>	<u>(1,890,643)</u>	<u>(1,291,656)</u>
Non-current liabilities			
Obligations under finance leases	(11,303)	(11,303)	(11,303)
Total non-current liabilities	<u>(11,303)</u>	<u>(11,303)</u>	<u>(11,303)</u>
Total liabilities	<u><u>(4,335,453)</u></u>	<u><u>(1,901,946)</u></u>	<u><u>(1,302,959)</u></u>
Net assets	<u><u>25,715,818</u></u>	<u><u>1,876,491</u></u>	<u><u>3,224,489</u></u>
Equity			
Share capital	11,854	9,878	11,217
Share premium account	53,211,625	11,164,574	18,706,233
Other reserves	(302,767)	306,659	19,404
Retained earnings	(27,204,894)	(9,604,620)	(15,512,365)
Equity attributable to equity holders of the parent	<u><u>25,715,818</u></u>	<u><u>1,876,491</u></u>	<u><u>3,224,489</u></u>

**Unaudited consolidated cash flow statement
for the six months ended 30 June 2007**

	Note	6 months ended 30 June 2007 \$	6 months ended 30 June 2006 \$	Year ended 31 December 2006 \$
Net cash used in operating activities				
Net cash used in operations	3	(8,789,871)	(1,891,604)	(8,290,238)
Income tax paid		-	(2,513)	(12,705)
		<u>(8,789,871)</u>	<u>(1,894,117)</u>	<u>(8,302,943)</u>
Net cash used in operating activities				
Cash flows used in investing activities				
Interest received		71,111	44,885	82,312
Purchase of property, plant and equipment		(107,160)	(23,399)	(174,572)
		<u>(36,049)</u>	<u>21,486</u>	<u>(92,260)</u>
Net cash used in investing activities				
Cash flows from financing activities				
Interest paid		(5,289)	(9,248)	(16,186)
Proceeds from issue of shares, net of expenses		10,177,262	4,348,105	11,690,387
Repayment of obligations under finance leases		(7,084)	(25,689)	(44,760)
		<u>10,164,889</u>	<u>4,313,168</u>	<u>11,629,441</u>
Net cash from financing activities				
Net increase in cash and cash equivalents				
		<u>1,338,969</u>	<u>2,440,537</u>	<u>3,234,238</u>
Cash and cash equivalents brought forward		<u>3,804,771</u>	<u>570,533</u>	<u>570,533</u>
Cash and cash equivalents carried forward				
		<u>5,143,740</u>	<u>3,011,070</u>	<u>3,804,771</u>
Represented by:				
Positive cash balances		<u>5,143,740</u>	<u>3,011,070</u>	<u>3,804,771</u>

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

1. Basis of preparation

The interim financial statements include the results of operations and the financial position of the Company and its subsidiaries (together “the Group”) as at and for the six months ended 30 June 2007. They have been prepared in accordance with the disclosure requirements of the Listing Rules using the recognition and measurement criteria of International Financial Reporting Standards (“IFRS”). Phorm Inc’s transition date to IFRS was 1 January 2006. Comparative figures for the year ended 31 December 2006 and 30 June 2006, which were previously reported in accordance with accounting principles generally accepted in the United Kingdom (“UK GAAP”), have been restated to comply with IFRS. Details of this restatement are included in Note 8. The financial information has been prepared in accordance with those accounting policies presented in Note 7.

The interim financial statements have not been audited or reviewed.

The financial statements have been prepared in US dollars as the majority of the Group’s trade occurs in this currency.

2. Loss per share

The calculation of the basic earnings per share and diluted earnings per share is based on the loss attributable to equity shareholders of \$ 16,296,836 (31 December 2006: \$ 11,548,053; 30 June 2006: \$ 4,590,887) divided by the weighted average number of shares in issue during the period.

The weighted average number of shares used in the calculations are set out below:

6 months ended 30 June 2007 Number of shares	6 months ended 30 June 2006 Number of shares	Year ended 31 December 2006 Number of shares
11,357,452	9,546,380	10,257,408

3. Reconciliation of operating loss to net cash used in operating activities

	6 months ended 30 June 2007 \$	6 months ended 30 June 2006 \$	Year ended 31 December 2006 \$
Operating loss	(16,362,658)	(4,677,502)	(11,601,474)
Depreciation and amortization	51,298	37,863	225,871
Share based payment expense	4,604,307	537,203	1,533,133
Movements in working capital	2,917,182	2,210,832	1,552,232
Net cash used in operating activities	(8,789,871)	(1,891,604)	(8,290,238)

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

4. Share based payments

The Group issues equity-settled share-based payments to certain employees and consultants.

The cost of share-based compensation awards is recognised as an expense. Equity-settled share-based payments are measured at fair value, excluding the impact of non-market vesting conditions at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

For equity-settled share-based payments with market-based vesting conditions, the fair value is determined at the date of grant, having regard to the expected achievement of such performance conditions. Once determined, the expected achievement is not adjusted, even where the market-based vesting conditions are not subsequently met.

The charges arising under IFRS 2 included in the income statement are:

	6 months ended 30 June 2007 \$	6 months ended 30 June 2006 \$	Year ended 31 December 2006 \$
Share-based payment expense	<u>(4,604,307)</u>	<u>(537,203)</u>	<u>(1,533,133)</u>

As per the transitional provisions, the Group has applied IFRS 2 only to those options granted after 7 November 2002 and that had not yet vested at 1 January 2006.

Employer's taxes on the share options, comprising employers' national insurance contributions in the UK, are calculated using the market value of the company's shares at the reporting date, and pro-rated over the vesting period of the options.

The charges arising in respect to UK Employers National Insurance included in the income statement are:

	6 months ended 30 June 2007 \$	6 months ended 30 June 2006 \$	Year ended 31 December 2006 \$
UK Employers National Insurance	<u>(1,857,911)</u>	<u>(575,089)</u>	<u>(497,290)</u>

5. Incorporation of Phorm, Inc

Phorm, Inc (the "Company") was incorporated on 18 April 2007 and on 3 May 2007 acquired the entire share capital of 121Media, Inc. (now known as Phorm UK, Inc.) Each outstanding share of capital stock of 121Media, Inc. was automatically converted into a share of the Company and the common stock of the Company was admitted to trading on the AIM market of the London Stock Exchange on 4 May 2007.

The reorganisation was accomplished by a merger of a wholly owned subsidiary of the Company with and into 121Media, Inc. pursuant to Section 251(g) of the Delaware General Corporation Law.

In accordance with IFRS 3 "Business Combinations", the acquisition of 121Media, Inc. by the Company has been accounted for as a reverse acquisition. The key features of this basis of consolidation are:

- The consolidated IFRS financial statements are a continuation of the financial statements of 121Media, Inc. and its subsidiaries and the retained earnings recognised are a continuation of those of 121Media, Inc immediately before the business combination.

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

- The consolidated income statement for the six months ended 30 June 2007 includes the results of 121Media, Inc. for the six months ended 30 June 2007 and of Phorm, Inc from 3 May 2007, the date of the reverse acquisition.
- The assets and liabilities of 121Media, Inc. and its subsidiaries are measured based on their pre-combination carrying amounts.
- The equity structure appearing in these consolidated financial statements reflects the equity structure of the legal parent, Phorm, Inc.
- Phorm, Inc. has been consolidated from the date of the reverse acquisition using the fair value of its assets and liabilities at that date. The cost of the acquisition was £nil and no goodwill arose on the acquisition.

At 3 May 2007 prior to the merger, Phorm, Inc. held \$0.1 of cash and had issued 100 common shares of \$0.001 each to 121Media, Inc. No other assets or liabilities existed on acquisition.

6. Dividend

The Directors do not propose to pay an interim dividend.

7. IFRS Accounting Policies

These interim financial statements have been prepared under IFRS in accordance with the accounting policies set out below.

Use of estimates

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. Although these results are based on management's best knowledge of the amounts, events or actions, actual results ultimately may differ from those estimates.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company using consistent accounting policies.

In preparing the consolidated financial statements, all inter-company balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

Foreign currency

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

(iii) Group companies

On consolidation, the results and financial position of all the group entities that have a functional currency different from the Company are translated into US Dollars as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates because they are considered to be an approximation to translating each transaction at the ruling rate; and
- all resulting exchange differences are recognised as a separate component of equity. Such translation differences are recognized as income or as expense in the financial period in which the related operations are disposed of.

Intangible assets

An intangible asset arising from software development expenditure is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

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

Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. Assets that are not available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risk specific to the asset for which the estimates of future cash flows have not been adjusted. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

Property, plant and equipment

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful life of the item, as follows:

	%	Method
Computer hardware & machinery	50	Straight line
Furniture & fixtures	33	Straight line

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within the income statement.

Trade and other receivables

Trade receivables are recognised initially at transaction value. The directors consider that there is no significant difference between the transaction value and fair value of trade and other receivables.

A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Bad debts are written off when identified.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

Trade and other payables

Trade payables are recognised initially at transaction value. The directors consider that there is no significant difference between the nominal value and fair value of trade and other payables.

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. 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.

Share based payments

The Group has applied the requirements of IFRS 2 Share-based Payment. As per the transitional provisions, the Group has applied IFRS 2 only to those options granted after 7 November 2002 and that had not yet vested at 1 January 2006.

The Group issues equity-settled share-based payments to certain employees and consultants.

The cost of share-based compensation awards is recognised as an expense. Equity-settled share-based payments are measured at fair value, excluding the impact of non-market vesting conditions at the date of grant. The fair value determined at the date of grant is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non-market based vesting conditions.

For equity-settled share-based payments with market-based vesting conditions, the fair value is determined at the date of grant, having regard to the expected achievement of such performance conditions. Once determined, the expected achievement is not adjusted, even where the market-based vesting conditions are not subsequently met.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest.

At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Employer's National Insurance on share options

Certain share options result in employers' national insurance contributions (NIC) in the UK. Provision for such costs is made on outstanding share options that are expected to be exercised, calculated at the latest enacted NIC rate applied to the difference between the market value of the underlying shares at the balance sheet date and the option exercise price. This charge is allocated over the period from the date of grant to the end of the performance or service period. From that date to the actual date of exercise, the provision is adjusted by using the current market value of the shares. Where there is no performance period, full provision is made immediately.

Equity instruments

Equity instruments issued by the Group are recorded at proceeds, net of direct issue costs.

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

Post employment benefits

The Group operates a defined contribution pension scheme. Contributions payable for the year are charged to the income statement as they fall due.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for net of discounts, VAT and other sales-related taxes.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax, including UK corporation tax and Delaware income tax, is based on taxable profits for the year. Taxable profits differ 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. Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially 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 difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are offset against deferred tax assets when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis. Any remaining deferred tax asset is recognised only when, on the basis of all available evidence, it can be regarded as probable that there will be suitable taxable profits, within the same jurisdiction, in the foreseeable future against which the deductible temporary difference can be utilised.

Deferred tax is determined using tax rates that are expected to apply in the periods in which the asset is realised or liability settled, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Current and deferred tax is recognised in the income statement, except when the tax relates to items charged or credited directly in equity, in which case the tax is also recognised in equity.

8. Transition to IFRS

For all periods up to and including the year ended 31 December 2006, the Group prepared its financial statements in accordance with UK generally accepted accounting practice (UK GAAP). The financial statements for the year ending 31 December 2007 are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Accordingly, the Group has prepared financial statements that comply with IFRS applicable for the period beginning 1 January 2007. In preparing the financial statements, the Group has applied IFRS from 1 January 2006, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 "First time adoption of IFRS".

**Notes to the interim financial statements (unaudited)
for the six months ended 30 June 2007**

This note explains the principal adjustments made by the Group in restating its UK GAAP balance sheet as at 1 January 2006 and its previously published UK GAAP financial statements for the six months ended 30 June 2006 and year ended 31 December 2006.

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

Transition to IFRS (continued)

IFRS 1 “First Time Adoption of International Financial Reporting Standards”

IFRS 1 sets out the procedures that the Group must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Group is required to establish its accounting policies for the year ending 31 December 2007 and, in general, apply these retrospectively to determine the IFRS opening balance sheet at its date of transition, 1 January 2006.

The standard provides a number of optional exemptions to this general principle. The exemptions adopted by the Group are set out below:

Share-based payment

In accordance with the transitional provisions of IFRS 2 “Share-based Payment” and as permitted by IFRS 1, the expense recognised in the income statement only relates to grants made during the financial period and grants made after 7 November 2002 that had not fully vested at 1 January 2006.

Restatement of financial information under IFRS

An explanation of how the transition from superseded policies to IFRS has affected the Group financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

Transition to IFRS (continued)

Income Statement

	6 months ended 30 June 2006				Year ended 31 December 2006			
	UK GAAP \$	Effect of transition to IFRS \$	Adjustment due to error identified under previous GAAP \$	IFRS \$	UK GAAP \$	Effect of transition to IFRS \$	Adjustment due to error identified under previous GAAP \$	IFRS \$
Continuing operations								
Revenue	1,173,803	-	-	1,173,803	1,272,254	-	-	1,272,254
Cost of sales	(255,137)	-	-	(255,137)	(403,306)	-	-	(403,306)
Gross profit	918,666	-	-	918,666	868,948	-	-	868,948
Administrative expenses	(5,292,409)	-	(303,759)	(5,596,168)	(12,405,587)	-	(64,835)	(12,470,422)
Operating loss	(4,373,743)	-	(303,759)	(4,677,502)	(11,536,639)	-	(64,835)	(11,601,474)
Investment revenue	44,885	-	-	44,885	82,312	-	-	82,312
Finance costs	(9,248)	-	-	(9,248)	(16,186)	-	-	(16,186)
Loss before taxation	(4,338,106)	-	(303,759)	(4,641,865)	(11,470,513)	-	(64,835)	(11,535,348)
Taxation on loss on ordinary activities	(2,513)	-	-	(2,513)	(12,705)	-	-	(12,705)
Loss on ordinary activities after taxation	(4,340,619)	-	(303,759)	(4,644,378)	(11,483,218)	-	(64,835)	(11,548,053)

**Notes to the interim financial statements (unaudited)
for the six months ended 30 June 2007**

Transition to IFRS (continued)

Balance Sheet

	At 30 June 2006				Year ended 31 December 2006			
	UK GAAP \$	Effect of transition to IFRS \$	Adjustment to error identified under previous GAAP \$	IFRS \$	UK GAAP \$	Effect of transition to IFRS \$	Adjustment to error identified under previous GAAP \$	IFRS \$
Non-current assets								
Property, plant and equipment	419,798	-	(254,552)	165,246	384,857	-	(256,243)	128,614
Intangible assets	-	-	-	-	48,827	-	(48,827)	-
Total non-current assets	419,798	-	(254,552)	165,246	433,684	-	(305,070)	128,614
Current assets								
Trade receivables	236,625	-	-	236,625	-	-	-	-
Other receivables	365,496	-	-	365,496	594,063	-	-	594,063
Cash and cash equivalents	3,011,070	-	-	3,011,070	3,804,771	-	-	3,804,771
Total current assets	3,613,191	-	-	3,613,191	4,398,834	-	-	4,398,834
Total assets	4,032,989	-	(254,552)	3,778,437	4,832,518	-	(305,070)	4,527,448
Current liabilities								
Trade payables	540,752	-	-	540,752	156,736	-	-	156,736
Other payables	1,177,467	-	114,276	1,291,743	1,299,607	-	(203,764)	1,095,843
Obligations under finance leases	18,426	-	39,722	58,148	39,077	-	-	39,077
Total current liabilities	1,736,645	-	153,998	1,890,643	1,495,420	-	(203,764)	1,291,656
Non-current liabilities								
Obligations under finance leases	51,025	-	(39,722)	11,303	11,303	-	-	11,303
Total non-current liabilities	51,025	-	(39,722)	11,303	11,303	-	-	11,303
Total liabilities	1,787,670	-	114,276	1,901,946	1,506,723	-	(203,764)	1,302,959
Net assets	2,245,319	-	(368,828)	1,876,491	3,325,795	-	(101,306)	3,224,489
Equity								
Share capital	9,878	-	-	9,878	11,217	-	-	11,217
Share premium account	11,164,574	-	-	11,164,574	18,706,233	-	-	18,706,233
Other reserves	306,659	-	-	306,659	19,404	-	-	19,404
Retained earnings	(9,235,792)	-	(368,828)	(9,604,620)	(15,411,059)	-	(101,306)	(15,512,365)
Equity attributable to equity holders of the parent	2,245,319	-	(368,828)	1,876,491	3,325,795	-	(101,306)	3,224,489

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

Transition to IFRS (continued)

Reconciliation of equity

	At 1 January 2006 \$	At 30 June 2006 \$	At 31 December 2006 \$
Shareholders' equity under previous GAAP	1,971,236	2,245,319	3,325,795
Adjustments; correction of errors identified under previous GAAP:			
Website development costs (note (i))	-	-	(48,827)
Software development costs (note (ii))	(324,889)	(254,552)	(256,243)
Share options NI (note (iii))	9,350	(114,276)	203,764
Shareholders' equity under IFRS	<u>1,655,697</u>	<u>1,876,491</u>	<u>3,224,489</u>

Notes: Errors identified under previous GAAP

In accordance with the requirements of IFRS 1 "First-time adoption of IFRS" paragraph 41, the Company has separately identified in the reconciliations above errors made relating to the application of UK GAAP in previous periods. Further information is provided below in respect of these items:

- i) As at 31 December 2006, the Group had recorded an intangible fixed asset for capitalised website costs with a net book value of \$48,827 (30 June 2006 - \$nil; 1 January 2006 - \$nil). Such costs are capitalisable under UK GAAP where the conditions set out in UITF Abstract 29 "Website Development Costs" are met. This requires, amongst other conditions, that the website will generate sales or other revenues directly. As the Company's website did not have the capacity to generate revenue, management has reversed this amount as an error and expensed the costs in the period in which they arose, being the six months ended 31 December 2006.
- ii) As at 31 December 2006, the Group had recorded an intangible fixed asset for capitalised software development costs with a net book value of \$256,243 (30 June 2006 - \$254,552; 1 January 2006 - \$324,889). Such costs were capitalisable under UK GAAP where the conditions set out in SSAP 13 "Accounting for Research and Development" are met. This requires, amongst other conditions, that technological feasibility and commercial viability has been established for the products under development and that recovery of costs is reasonably assured. Management have not been able to satisfy themselves that all of these conditions had been achieved by the historic reporting dates. Consequently, amounts previously capitalised have been expensed in the period in which they were incurred as an error.
- iii) As required, under UK GAAP, the Company adopted FRS 20 "Share-based payment" in the year ended 31 December 2006, resulting in the recognition of the cost of share options at fair value. Management, having taken independent expert advice, have subsequently determined that the assumptions applied in determining the fair value of the options contained errors, relating to the expected life assumption, where the contractual term had been applied rather than the expected option term, and with respect to the expected volatility. Management have revised the fair value of options granted, and have adjusted the share option expense to reflect these revised fair values. As a consequence the fair value charge on options has been understated by \$250,470 in the six months ended 30 June 2006 and \$279,068 in the year ended 31 December 2006 and the accrual for employers NIC was overstated by \$203,764 at 31 December 2006, as a result of the inclusion in error of National Insurance on options held by non UK employees and an under-accrual due to incorrect vesting assumptions (30 June 2006 - \$114,276 understatement; 1 January 2006 - \$9,350 overstatement).

Notes to the interim financial statements (unaudited) for the six months ended 30 June 2007

Adjustments arising on adoption of IFRS

No adjustments affecting the income statement or balance sheet have been identified as a result of the adoption of the accounting policies set out in note 7.

Cash flow statement

Other than reclassification between captions, there are no material differences between the cash flow statement presented under IFRS and the cash flow statement presented under previous UKGAAP.

9. Copies of this statement will be sent to shareholders and will be available from the Company's UK principal office at Golden Cross House, 8 Duncannon Street, London WC2N 4JF.