

X-PHONICS PLC (“X-Phonics” or the “Company”)

Interim Statement for the period ended 31st March 2010

CHAIRMAN’S STATEMENT

I present the financial statements for the six months to 31st March 2010.

Over the last six months we have continued to seek alternative opportunities that could make use of the company’s infrastructure and listing on AIM in market sectors where there is scale, growth and a revenue model that is better suited to a public market.

Having looked at a number of possible opportunities I am pleased to be able to tell you that the Company announced on 3rd September proposals for a proposed investment through Verdes Management Limited (“VML”) to raise £141,000 in aggregate (before expenses), Board changes and a strategic change in business direction for the Company conditional upon a share reorganisation and shareholders’ approval in general meeting.

The investing policy of the Group (subject to shareholders’ approval) will be to pursue a new strategic business direction as a turnaround advisory business offering services to stakeholders, as well as seeking investment opportunities in UK public companies in need of restructuring.

The net proceeds of the fundraising through VML will provide short term working capital to allow the Company to commence business, and progress the proposed recruitment of an established turnaround team (where discussions are currently at an advanced stage). It is intended that there will be a more substantial fundraising in due course.

I hope to be able to report progress upon this matter shortly.

Robin Davies

Chairman

24th September 2010

X-Phonics plc
Consolidated Income Statement for six months ended 31st March 2010

	Note	6 months ended 31 March 2010 (unaudited) £	6 months ended 31 March 2009 (unaudited) £	Year ended 30 September 2009 (audited) £
Revenue		34,364	67,712	94,066
Cost of Sales		-	(24,134)	(37,194)
Gross Profit		34,364	43,578	56,872
Administrative expenses		(50,432)	(82,077)	(154,722)
Operating Loss		(16,068)	(38,499)	(97,850)
Finance income		-	1	47
Finance costs		(218)	(221)	(546)
Loss on ordinary activities before taxation		(16,286)	(38,719)	(98,349)
Income tax expense		-	-	-
Loss for the period		<u>(16,286)</u>	<u>(38,719)</u>	<u>(98,349)</u>
Loss per share attributable to the equity holders of the company:				
Basic loss per ordinary share	3.	<u>(0.03 pence)</u>	<u>(0.06 pence)</u>	<u>(0.15 pence)</u>
Diluted loss per ordinary share	3.	<u>(0.03 pence)</u>	<u>(0.06 pence)</u>	<u>(0.15 pence)</u>

All of the activities of the group are classed as continuing

X-Phonics plc
Consolidated Balance Sheet as at 31st March 2010

	31 March 2010 (unaudited) £	31 March 2009 (unaudited) £	30 September 2009 (audited) £
Assets			
Non-current assets			
Property, plant and equipment	8,158	27,120	17,460
	<u>8,158</u>	<u>27,120</u>	<u>17,460</u>
Current assets			
Trade and other receivables	54,381	77,777	49,328
Cash and cash equivalents	2,451	5,618	7,457
	<u>56,832</u>	<u>83,395</u>	<u>56,785</u>
Total assets	<u>64,990</u>	<u>110,515</u>	<u>74,245</u>
Liabilities and Equity			
Current liabilities			
Trade and other payables	431,252	399,077	422,181
Financial liabilities – bank overdraft	-	-	1,148
Obligations under finance lease	4,091	5,875	4,983
	<u>435,343</u>	<u>404,952</u>	<u>428,312</u>
Total liabilities	<u>435,343</u>	<u>404,952</u>	<u>428,312</u>
Equity			
Called-up equity share capital	2,803,119	2,803,119	2,803,119
Share premium account	743,474	743,474	743,474
Merger reserve	(738,578)	(738,578)	(738,578)
Retained earnings	(3,178,368)	(3,102,452)	(3,162,082)
	<u>(370,353)</u>	<u>(294,437)</u>	<u>(354,067)</u>
Total Equity	<u>(370,353)</u>	<u>(294,437)</u>	<u>(354,067)</u>

Total Liabilities and Equity	<u>64,990</u>	<u>110,515</u>	<u>74,245</u>
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X-Phonics plc

Consolidated Statement of Changes in Equity as at 31st March 2010

	Share Capital	Share Premium	Merger Reserve	Retained Earnings	Total Equity
	£	£	£	£	£
Balance at 1 October 2008	2,803,119	743,474	(738,578)	(3,063,733)	(255,718)
Loss for period	-	-	-	(38,719)	(38,719)
At 31 March 2009	2,803,119	743,474	(738,578)	(3,102,452)	(294,437)
Loss for period	-	-	-	(59,630)	(59,630)
At 30 September 2009	2,803,119	743,474	(738,578)	(3,162,082)	(354,067)
Loss for period	-	-	-	(16,286)	(16,286)
At 31 March 2010	<u>2,803,119</u>	<u>743,474</u>	<u>(738,578)</u>	<u>(3,178,368)</u>	<u>(370,353)</u>

X-Phonics plc**Consolidated Cash Flow Statement for six months ended 31st March 2010**

	6 months ended 31 March 2010 (unaudited) £	6 months ended 31 March 2009 (unaudited) £	Year ended 30 September 2009 (audited) £
Net cash (outflow)/inflow from operating activities	(2,749)	370	2,233
Investing activities			
Interest paid	(218)	(221)	(546)
Interest received	-	1	47
Net cash flow before financing activities	<u>(2,967)</u>	<u>150</u>	<u>1,734</u>
Financing activities			
Capital element of finance leases repaid	(891)	(891)	(1,784)
Net cash used in financing activities	<u>(891)</u>	<u>(891)</u>	<u>(1,784)</u>
Net (decrease)/increase in cash and cash equivalents	(3,858)	(741)	(50)
Opening net cash and cash equivalents	6,309	6,359	6,359
Closing net cash and cash equivalents	<u>2,451</u>	<u>5,618</u>	<u>6,309</u>
Reconciliation of operating loss to net cash outflow/inflow from operating activities	6 months ended 31 March 2010	6 months ended 31 March 2009	Year ended 30 September 2009

	£	£	£
Operating Loss	(16,068)	(38,499)	(97,850)
Depreciation	9,301	9,661	19,322
Operating cash flows before movements in working capital	(6,767)	(28,838)	(78,528)
Decrease/(increase) in receivables	(5,053)	6,483	33,675
Increase/(decrease) in payables	9,071	22,725	45,829
Net movement in working capital	4,018	29,208	79,504
Net movement in cash flow	(2,749)	370	976
Income taxes paid	-	-	1,257
Net cash (outflow)/inflow from operating activities	(2,749)	370	2,233

Notes to the unaudited financial statements

1. Basis of preparation

The financial information included in this report does not constitute statutory accounts as defined in section 435 of the Companies Act 2006. The consolidated interim financial statements for the six months ended 31 March 2010 have been prepared under applicable International Financial Reporting Standards adopted by the European Union ("IFRS"). The financial information for the period ended 30 September 2009 has been extracted from the statutory accounts for that period. The auditors' report on the full statutory accounts for the period ended 30 September 2009 was unqualified with an emphasis of matter with regards going concern. The financial information for the six months ended 31 March 2009 and 31 March 2010 has not been audited.

2. Principal Accounting Policies

The principal accounting policies adopted are consistent with those of the annual financial statements for the year ended 30 September 2009 and are those expected to be applied for the year ended 30 September 2010.

3. Earnings per Share

The earnings per ordinary share have been calculated on the ordinary activities after taxation of £16,286 (31 March 2009 - £38,719, 30 September 2009 - £98,349) using the weighted

average number of ordinary shares in issue during the period being 66,214,920 (31 March 2009 – 66,214,920, 30 September 2009 – 66,214,920). The weighted average number of diluted ordinary shares in issue during the period was 66,214,920 (31 March 2009 – 66,214,920, 30 September 2009 – 66,214,920).