Infoserve Group plc

("Infoserve" or "the Group")

Interim Results

Infoserve Group plc (AIM: INFS), a leading online local search marketing specialist, today announces its interim results for the six months ended 30 September 2007.

Highlights

- Turnover increased by 36% to £2.4 million for the period
- Exclusive contract with leading search engine Yahoo! Local has started well
- Strategic review of costs successfully completed, which will benefit future trading and reduce cash outflow
- Expected to achieve operating profitability on a monthly basis in the next financial year
- Operating losses before amortisation were £1.53 million (2006: losses of £1.40 million)
- Losses before tax of £1.79 million (2006: losses of £1.54 million)
- Discussions with a number of potential new partners well advanced

Chairman James Newman said "The market for on-line local search continues to grow and the Group now has almost 3 million businesses listed on its own business directories across a network of 130 websites. The new contract with Yahoo! is doing well with month by month increases in revenue.

The recent restructuring of the cost base will give the Group an efficient platform from which it can continue to grow in the future. Future market opportunities will provide the potential for substantial growth and enable the Group to maintain its position as one of the leading players in this industry sector"

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Chairman's statement

I can report that the Group has made some good progress towards achieving its strategic aims, albeit at a slower rate than had been anticipated at the time of flotation on AIM in 2006.

Results

Turnover in the six month period to 30 September 2007 increased to £2.40 million, a 36% increase over the same period in 2006. This growth has been achieved mainly through the gaining of the exclusive contract to sell fixed space on Yahoo! Local and the development of our other high traffic on-line business search sites.

However, as we stated in our trading statement in October 2007, whilst the core telesales team has performed well, with productivity per person continuing to rise, the scale and speed of revenue growth has been lower than the Board's expectations. This is mainly due to the difficulties in increasing the telesales headcount as quickly as had been hoped.

Whilst revenues have increased, so have costs, as the Group has continued to invest for the future, both in the recruitment and training of telesales staff and the technical infrastructure and data required to manage the substantial increase in activity anticipated over the next few years. The move to the new state of the art call centre in Darlington to house the increased telesales staff has also increased overheads over the period.

The combination of a lower than expected improvement in sales and increased costs have led to an operating loss before amortisation of £1.53 million, compared to £1.40 million in the corresponding period last year. After taking into account the increased amortisation charge and net interest payable, there was a loss before taxation of £1.79 million (2006 - £1.54 million).

The loss per share was 10.39p compared to 11.08p in 2006.

Strategic Cost Review

In October, the Group announced that it was undertaking a strategic cost review in order to bring overheads in line with revenues. I am glad to report that this review has now been completed and substantial costs have been taken out of the business, primarily in non-core areas. This has had little effect on the day to day operations of the Group and will result in much reduced trading cash outflows and eventually lead to monthly operating profitability in the next financial year.

As part of this review, changes have been made to the way we recruit, train and manage the sales team, which is already starting to have a positive effect on sales, productivity and retention of staff.

Dividend

The Board is not recommending a dividend as all funds are required for the development of the business.

Share Placing

In June, the Company raised £2.00 million by way of a placing of 4,444,445 ordinary shares at a price of 45p per share. This was to enable the expansion of the Group's sales and marketing activities by recruiting and training additional sales executives in order to capitalise on the recent contract wins from Yahoo! and the Football League.

Business developments

The new contracts with Yahoo! and the Football League started in the period and have added significantly to the range of products offered by the Group to its customer base. The sales experience and technical knowledge gained in operating these and other partnership contracts, has made the Group one of the leading exponents of the local search market in the UK.

This profile has attracted a number of other potential partners to enter into discussions to utilise the Group's unique data base and sales team. It is hoped to be able to make further announcements regarding new partnership arrangements in due course.

Board role changes

In order that the Executive Directors could better utilise their time and skills, David Balbi has been given responsibility for the telesales operations in Darlington and Leeds. This has allowed Steve Barnes to focus on developing the strategic partnerships with major media and on-line businesses, which are so vital for the future of the Group.

David retains his responsibilities as Finance Director but has relinquished the role of Company Secretary to Mike Deakin, who also becomes Group Commercial Manager.

IFRS

These financial results are reported under IFRS for the first time. The principal impact relates to the treatment of amortisation of business combinations.

Taxation

The Group has recognised a deferred tax asset of £0.89 million based only on post acquisition losses.

Outlook

The market for on-line local search continues to grow and the Group now has almost 3 million businesses listed on its own business directories across a network of 130 websites. The new contract with Yahoo! is doing well with month by month increases in revenue.

The recent restructuring of the cost base will give the Group an efficient platform from which it can continue to grow in the future. Future market opportunities will provide the potential for substantial growth and enable the Group to maintain its position as one of the leading players in this industry sector.

James H Newman
Chairman **13 December 2007**

Consolidated Interim Income Statement (unaudited)

	(notes)	**Six months to 30 September 2007 £'000**	Six months to 30 September 2006 £'000	Year ended 31 March 2007 £'000
Continuing Operations				
Turnover		**2,396**	1,756	4,015
Cost of sales		**(2,350)**	(1,764)	(3,610)
Gross profit/(loss)		**46**	(8)	405
Administrative expenses		**(1,747)**	(1,460)	(3,226)
Loss before interest, taxation and amortisation		**(1,528)**	(1,400)	(2,700)
Amortisation		**(173)**	(68)	(121)
Operating loss		**(1,701)**	(1,468)	(2,821)
Interest receivable		**19**	24	47
Interest payable		**(110)**	(94)	(202)
Loss before taxation		**(1,792)**	(1,538)	(2,976)
Taxation	4		350	893
Loss for the period		**(1,792)**	(1,188)	(2,083)
		Pence	Pence	Pence
Loss per share - pence	5	**(10.39)**	(11.08)	(16.64)

Consolidated interim balance sheet (unaudited)

	As at 30 September 2007 £'000	As at 30 September 2006 £'000	As at 31 March 2007 £'000
Non-current assets			
Intangible assets	**560**	389	515
Tangible assets	**492**	416	480
Deferred tax asset	**893**	350	893
	1,945	1,155	1,888
Current assets			
Trade and other receivables	**318**	143	405
Cash	**956**	1,709	330
	1,274	1,852	735
Total assets	**3,219**	3,007	2,623
Current liabilities			
Trade and other payables	**(3,730)**	(1,833)	(2,648)
	(3,730)	(1,833)	(2,648)
Non-current liabilities			
Interest bearing loans	**(1,539)**	(2,466)	(2,154)
Shares classed as financial liabilities	**(100)**	(100)	(100)
	(1,639)	(2,566)	(2,254)
Total liabilities	**(5,369)**	(4,399)	(4,902)
Net liabilities	**(2,150)**	(1,392)	(2,279)
Equity			
Share capital	**954**	730	730
Share premium	**3,871**	2,210	2,210
Retained earnings	**(6,975)**	(4,332)	(5,219)
Total equity	**(2,150)**	(1,392)	(2,279)

Summarised consolidated cash flow statement (unaudited)

	Six months to 30 September 2007 £'000	Six months to 30 September 2006 £'000	Year ended 31 March 2007 £'000
Cash flows from operating activities			
Loss for the period	**(1,792)**	(1,188)	(2,083)
Adjustments for			
Share based payment charge	**36**	-	8
Financial income	**(19)**	(24)	(47)
Financial expense	**110**	94	202
Deferred tax provision	**-**	(350)	(893)
Depreciation charge	**82**	56	128
Amortisation of intangible fixed assets	**173**	68	121
Operating loss before movements in working capital	**(1,410)**	(1,344)	(2,564)
Decrease/(increase) in trade and other receivables	**87**	205	(57)
Increase in trade and other payables	**403**	310	754
Net cash outflow from operations	**(920)**	(829)	(1,867)
Net interest received	**19**	24	47
Interest paid	**(1)**	(1)	(1)
Net cash outflow from operating activies	**(902)**	(806)	(1,821)
Cash flows from investing activities			
Sale of fixed assets	**2**	-	-
Purchase of intangible fixed assets	**(211)**	(163)	(341)
Purchase of tangible fixed assets	**(96)**	(258)	(394)
Net cash outflow from investing activities	**(305)**	(421)	(735)
Cash flows from financing activities			
Issue of new shares	**222**	445	445
Share premium on issue of new shares	**1,778**	2,567	2,567
Costs in respect of share issues	**(117)**	(357)	(357)
Loan repayment	**(50)**	-	(50)
Loan advance	**-**	70	70
Net cash from financing activities	**1,833**	2,725	2,675
Net increase in cash	**626**	1,498	119
Cash at the beginning of the period	**330**	211	211
Cash at the end of the period	**956**	1,709	330

Notes to the interim report

Basis of preparation

1. It is required that the next annual consolidated financial statements of the Group, for the year ending 31 March 2008, be prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU ("adopted IFRSs").

The interim financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRSs as at 30 September 2007 that are effective (or available for early adoption) at 31 March 2008, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted IFRSs, the directors have applied the accounting policies, as set out below, which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 31 March 2008.

However, the adopted IFRSs that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 March 2008 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 March 2008.

The comparative figures for the financial year ended 31 March 2007 are not the company's statutory accounts for that financial year. Those accounts, which were prepared under UK GAAP, have been reported on by the company's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

Conversion to IFRS - Accounting policies

2. The Group's accounting policies remain as stated in the Group's full annual accounts for the year ended 31 March 2007 with the exception of the following accounting policies which are now as follows:

Business Combinations

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries, associates and jointly controlled entities. In respect of business acquisitions that have occurred since 1 April 2006, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

The acquisition of Infoserve Limited by Infoserve plc has been treated as a reverse acquisition, in line with IFRS 3.

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

Database costs

Expenditure on development activities associated with the costs of producing the group's database is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and has sufficient resources to complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. The estimated useful lives are as follows:

Capitalised database costs - indefinite life
Database enhancements - one year

3. The impact of the changes in accounting policies is as follows:

Business Combinations - Goodwill

The acquisition of Infoserve Limited by Infoserve plc has been treated as a reverse acquisition, in line with IFRS 3. As a result, no goodwill has been recognised.

Operating lease payments

Under UK GAAP, rent free periods have been spread over the period from the date of grant to the first available break clause in the lease. Under IFRS, rent free periods are amortised over the period from the date of grant to the end of the lease.

Employee benefits - holiday pay

Under UK GAAP, provision for holiday pay is a matter of accounting policy. The Group's policy was not to provide for holiday pay. Under IFRS, it is a requirement to provide for holiday pay.

Deferred tax assets

Under UK GAAP, the Group's deferred tax asset was discounted. Under IFRS this is not permissible therefore the effect of the discounting has been reversed.

The details of how these changes in accounting policies have affected the Group's financial position and financial performance are set out in the tables in note 6.

Tax and Loss per share

4. The tax position for the period is based on the anticipated effective tax rate for the year to 31 March 2008.

5. Basic losses per share are calculated on the loss for the period of £1,792,000 (six months to September 2006: loss of £1,188,000 and year ended March 2007: loss of £2,083,000) and on 17,251,747 ordinary shares, being the weighted average number of ordinary shares in issue in the period (September 2006: 10,717,617 ordinary shares and March 2007: 12,516,101 ordinary shares). Share options in issue in 2007 did not have a dilutive impact on the loss per share calculation.

6 Reconciliation of profits and equity

Reconciliation of profits for the six months to 30 September 2006

	UK GAAP	Holiday pay	Business combination	Deferred tax	Lease costs	Restated under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	1,756	-	-	-	-	1,756
Cost of sales	(1,764)	-	-	-	-	(1,764)
Gross loss	(8)	-	-	-	-	(8)
Administrative expenses	(1,538)	-	78	-	-	(1,460)
Loss before interest, taxation and amortisation	(1,400)	-	-	-	-	(1,400)
Amortisation	(146)	-	78	-	-	(68)
Operating loss	(1,546)	-	78	-	-	(1,468)
Interest receivable	24	-	-	-	-	24
Interest payable	(94)	-	-	-	-	(94)
Loss before taxation	(1,616)	-	78	-	-	(1,538)
Taxation	350	-	-	-	-	350
Loss for the period	(1,266)	-	78	-	-	(1,188)

Reconciliation of profits for the year ended 31 March 2007

	UK GAAP	Holiday pay	Business combination	Deferred tax	Lease costs	Restated under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Revenue	4015	-	-	-	-	4015
Cost of sales	(3,607)	(3)	-	-	-	(3,610)
Gross profit	408	(3)	-	-	-	405
Administrative expenses	(3,367)	(3)	156		(12)	(3,226)
Loss before interest, taxation and amortisation	(2,682)	(6)	-	-	(12)	(2,700)
Amortisation	(277)	-	156	-	-	(121)
Operating loss	(2,959)	(6)	156	-	(12)	(2,821)
Interest receivable	47	-	-	-	-	47
Interest payable	(202)	-	-	-	-	(202)
Loss before taxation	(3,114)	(6)	156	-	(12)	(2,976)
Taxation	703	-	-	190	-	893
Loss for the period	(2,411)	(6)	156	190	(12)	(2,083)

Reconciliation of equity as at 31 March 2006

	UK GAAP	Holiday pay	Business combination	Deferred tax	Lease costs	Restated under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets						
Intangible assets	294	-	-	-	-	294
Tangible assets	214	-	-	-	-	214
Deferred tax asset	-	-	-	-	-	-
	508	-	-	-	-	508
Current assets						
Trade and other receivables	348	-	-	-	-	348
Cash and cash equivalents	211	-	-	-	-	211
	559	-	-	-	-	559
Total assets	1,067	-	-	-	-	1,067
Current liabilities						
Trade and other payables	(3,802)	(23)	-	-	-	(3,825)
	(3,802)	(23)	-	-	-	(3,825)
Non-current liabilities						
Interest bearing loans	-	-	-	-	-	-
Shares classed as financial liabilities	(100)	-	-	-	-	(100)
	(100)	-	-	-	-	(100)
Total liabilities	(3,902)	(23)	-	-	-	(3,925)
Net liabilities	(2,835)	(23)	-	-	-	(2,858)
Equity						
Share capital	286	-	-	-	-	286
Share premium	-	-	-	-	-	-
Retained earnings	(3,121)	(23)	-	-	-	(3,144)
Total equity	(2,835)	(23)	-	-	-	(2,858)

Reconciliation of equity as at 30 September 2006

	UK GAAP	Holiday pay	Business combination	Deferred tax	Lease costs	Restated under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets						
Intangible assets	3,432	-	(3,043)	-	-	389
Tangible assets	416	-	-	-	-	416
Deferred tax asset	350	-	-	-	-	350
	4,198	-	(3,043)	-	-	1,155
Current assets						
Trade and other receivables	143	-	-	-	-	143
Cash and cash equivalents	1,709	-	-	-	-	1,709
	1,852	-	-	-	-	1,852
Total assets	6,050	-	(3,043)	-	-	3,007
Current liabilities						
Trade and other payables	(1,810)	(23)	-	-	-	(1,833)
	(1,810)	(23)	-	-	-	(1,833)
Non-current liabilities						
Interest bearing loans	(2,466)	-	-	-	-	(2,466)
Shares classed as financial liabilities	(100)	-	-	-	-	(100)
	(2,566)	-	-	-	-	(2,566)
Total liabilities	(4,376)	(23)	-	-	-	(4,399)
Net assets/(liabilities)	1,674	(23)	(3,043)	-	-	(1,392)
Equity						
Share capital	730	-	-	-	-	730
Share premium	2,210	-	-	-	-	2,210
Retained earnings	(1,266)	(23)	(3,043)	-	-	(4,332)
Total equity	1,674	(23)	(3,043)	-	-	(1,392)

Reconciliation of equity as at 31 March 2007

	UK GAAP	Holiday pay	Business combination	Deferred tax	Lease costs	Restated under IFRS
	£'000	£'000	£'000	£'000	£'000	£'000
Non-current assets						
Intangible assets	3,480	-	(2,965)	-	-	515
Tangible assets	480	-	-	-	-	480
Deferred tax asset	703	-	-	190	-	893
	4,663	-	(2,965)	190	-	1,888
Current assets						
Trade and other receivables	405	-	-	-	-	405
Cash and cash equivalents	330	-	-	-	-	330
	735	-	-	-	-	735
Total assets	5,398	-	(2,965)	190	-	2,623
Current liabilities						
Trade and other payables	(2,607)	(29)	-	-	(12)	(2,648)
	(2,607)	(29)	-	-	(12)	(2,648)
Non-current liabilities						
Interest bearing loans	(2,154)	-	-	-	-	(2,154)
Shares classed as financial liabilities	(100)	-	-	-	-	(100)
	(2,254)	-	-	-	-	(2,254)
Total liabilities	(4,861)	(29)	-	-	(12)	(4,902)
Net assets/(liabilities)	537	(29)	(2,965)	190	(12)	(2,279)
Equity						
Share capital	730	-	-	-	-	730
Share premium	2,210	-	-	-	-	2,210
Retained earnings	(2,403)	(29)	(2,965)	190	(12)	(5,219)
Total equity	537	(29)	(2,965)	190	(12)	(2,279)

7 Reconciliation of movements in equity

6 months ended 30 September 2006	Share capital	Share premium account	Profit and loss account
Group	£'000	£'000	£'000
Balance brought forward at transition	730	2,210	(3,144)
Loss for the period	-	-	(1,188)
Share option charge recognised	-	-	-
At end of period	730	2,210	(4,332)

12 months ended 31 March 2007	Share Capital	Share premium account	Profit and loss account
Group	£'000	£'000	£'000
Balance brought forward at transition	730	2,210	(3,144)
Loss for the year	-	-	(2,083)
Share option charge recognised	-	-	8
At end of year	730	2,210	(5,219)

6 months ended 30 September 2007	Share capital	Share premium account	Profit and loss account
Group	£'000	£'000	£'000
At start of period	730	2,210	(5,219)
Loss for the period	-	-	(1,792)
Share issue net of expenses	224	1,661	-
Share option charge recognised	-	-	36
At end of period	954	3,871	(6,975)

8 The unaudited results for the six month period do not constitute statutory accounts within the meaning of section 240 of the Companies Act 1985.

9 A copy of this interim statement is available on the Company's web site www.infoserve.com .