

Regeneris Plc (formerly Fonebak Plc) – Interim Report

for the six months ended 31 December 2007

Business Highlights

Regeneris plc (“Regeneris” or the “Group”) (LSE: “RGS”), a leading provider of product lifecycle management services to the consumer and commercial technology markets, is pleased to announce interim results for the six month period ended 31st December 2007.

Operational Highlights

- Restructuring Plan yielding positive results
 - Unprofitable areas of the business divested
 - Syndication of banking facilities now completed
 - Smaller, compact Group now well positioned for long term growth
- Core strategic shift towards end-to-end product lifecycle management
 - Combining technical and environmental excellence
 - Contract wins exceed £25.0m; £6.0m incremental
- Rebrand from Fonebak to Regeneris marks next phase in our plan
 - Focus now is profitable growth, delivered through investment in and marketing of our new capabilities
 - Sales pipeline is building

Financial Highlights

- Group revenue increased by 42% to £55.0m (2006: £38.7m)
- Headline profit increased to £2.8m (2006: Headline Loss £0.3m)
- Profit before tax increased to £1.6m (2006: Loss before tax £0.5m)
- Significant increase in cash generated from operations at £7.9m (2006: £3.9m)
- Net debt markedly improved to £3.9m (June 2007: £10.9m) from a peak in February 2007 of £16.5m

Commenting on the results Regeneris Chief Executive Officer, Gary Stokes, commented:

“I am pleased to be able to report that the Group has responded well and quickly to the restructuring and reinvigoration of our business. The Group as a whole has made a good start to the second half and, allied to the strong performance in the first half, the Board is positive about the outlook for the year as a whole.”

“With an improving sales pipeline and profitable operations in all our key target markets and territories, the Group is well placed to take the next step. We will now focus on driving growth through more aggressive and targeted marketing capability.”

For further information please contact:

Fonebak plc		01865 471900
Gary Stokes	Chief Executive	
David Kelham	Chief Financial Officer	
KBC Peel Hunt Ltd (Nominated Advisor and Broker)		020 7418 8900
Jonathan Marren / Oliver Stratton		
Financial Dynamics		020 7831 3113
Ed Bridges / Matt Dixon		

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Operating Review

A period of solid progress

In the last twelve months emphasis has been on the necessary restructuring of the Group's activities as a result of the trading difficulties in Fonebak. The management team, appointed following the acquisition of CRC in January 2007, subsequently conducted a full operational review of the business.

The review highlighted four fundamental challenges to address: the decline in Fonebak margins caused by a shift away from revenue share contracts; the excessive dependency for outbound sales on a single customer; the losses being incurred by the Fonebak repair facilities; and the significant reduction of working capital necessary to address excessive levels of debt. The retention of our key clients was identified as a priority, particularly through this period of transition.

The subsequent recovery programme included the closure of sites in Barnet and Stoke, the downsizing and retraining of a low-cost refurbishment facility in Romania, the termination of non-profitable contracts and the cessation of the mobile phone trading activities. In addition the outbound sales network has been developed and new sales channels opened.

As a result of these actions, there has been a significant improvement in financial position of the Group. For the first half of this year, the Group recorded a headline profit of £2.8m (2006: loss of £0.3m) on sales of £55m (2006: £38.7m). Cash generation has been strong and net debt has now reduced to £3.9m, from its peak in February 2007 of £16.5m.

It has been particularly pleasing that our efforts to improve our customer service and build stronger relationships with our clients have led to a number of recent successes. Since we last reported results in September, contracts worth in excess of £25m a year have been won. Of these, £6.0m is incremental revenue with the balance relating to renewals.

The progress over recent months has been considerable. The Group is now a smaller, more compact business, but with a good position in each of its retained businesses. Profits and cash flow are much improved and the Group recently completed the syndication of its banking facilities. The business is now in a much better position from which to move forward.

Our change of name to Regeneris, following shareholder approval, is significant in that it marks a transition to the next stage of our recovery programme: namely the integration and proactive marketing of our capabilities under a common brand, message and purpose.

Ongoing strategy

Having repositioned the business, Regeneris is now a leading provider of managed services to many of the premier brands in the consumer and commercial technology markets. In the twelve months to 31st December 2007 the Group managed over 7 million service events on behalf of our clients. We regularly interface with end-users through our contact centres, web enabled services, walk in centres and service points. A positive experience of our business is essential to the preservation of our client's brand reputation and investment.

The services we provide support the full product life cycle; from original design input, pre-sale testing, local customisation and configuration through to field support activities that include technical assistance as well as product repair, replacement and refurbishment programmes. The timely and cost effective execution of these services is imperative to our clients. If a mobile phone or set top box is not functioning, this leads to lost revenue for our clients and the risk of long term, negative consequences of churn and brand switching.

At the end of the product's life we will take that product back and where appropriate match it to a need in a secondary market, thereby extending the useable life of the product and creating value for our clients. If that product is beyond use we ensure it is recycled; recover its components and materials and put them back into productive use. We do this in a way that ensures we comply with the most demanding of standards and provide the necessary evidence notes. Our environmental WEEE licenses and end-to-end auditable systems differentiate us from our competitors and provide assurance to our clients.

By protecting our clients' brand we create value and interdependence. As a business our strategy is to market this capability proactively and develop our position as a strategic partner within our core clients. There is scope for us to do much more with our skill and knowledge base. This is a market that is still young, fragmented and underdeveloped. It offers opportunity for a creative and well-run business. Our strategy is to exploit that opportunity.

Regeneris: progress by segment

Regeneris today is a new, refocused business. Our aim is to offer a complete, end-to-end suite of product lifecycle management services structured around key markets across Europe.

Today's company comprises the former CRC businesses, acquired by Fonebak Group in 2007, which provide a range of services focused on product warranty programmes including technical repairs and associated activities. It also comprises the old "Core" Fonebak services including product take back and recycling as well as insurance related product replacement schemes.

Product repair services

UK

The UK as a whole has traded well despite the impact of the previously announced lower volumes in Nottingham. Glenrothes has recently received confirmation of the award of new business with UPC, a Netherlands based cable operator. The contract is significant in that it marks our first with a major European operator. The site has also been awarded sole supplier status with Virgin Media to support their set top box programme for the UK. Both these contracts are significant and include accreditations to support new technologies and OEM's.

The closures of Barnet and Stoke were completed with the minimum of disruption. The principal motivations for closure were the termination of unprofitable contracts and the elimination of excess capacity. Business with DSGi and Orange has been retained and relocated to other UK sites and will provide further development opportunities for the future.

Germany

In Germany activity has been considerable. Compared to 2006 the number of service events has more than doubled. The combination of a highly skilled workforce and good technical facilities has led to further success in the high security financial services sector where we have won new business with the market leaders.

The new facilities in Eastern Germany are now in full operation and making an important contribution. Negotiations are currently under way to contract additional space as we start to introduce new clients.

At the main Paderborn site, union negotiations have made good progress and a new tariff agreement has recently been concluded which will improve the cost base; the benefits of which will become evident in the 2008/9 financial year.

The Epson hub established for the German and Austrian markets is now up and running and trading well. The development of the customer base also includes recent contract wins with Tyco and Daimler as we enter the industrial market and Uniwill, a Chinese OEM manufacturing notebooks for Fujitsu Siemens.

Eastern Europe

In Eastern Europe the facility in Warsaw continues to break all previous records for output with volumes increasing by 25%. Short-term actions have been taken to increase capacity, however, given demand a longer-term solution is still required and a number of options are under consideration.

The Romanian facility, previously under threat of closure, has been retained following actions taken in the summer to reduce the cost base. Sony Ericsson has now accredited the facility for repair work and a programme to ramp up capacity is underway.

Environmental services

In line with our recovery programme, the shift in emphasis saw the outbound sales of mobile phones on revenue share contracts increase 16% over the period to 1.3m units. Despite a market expectation that sales prices would fall, our experience has been that, year-on-year, they have held up well and margins have increased.

There has also been a concerted focus on the clearance of surplus phone stocks written down in the first half of 2006. Since this exercise started in 2007, over 600,000 phones have been cleared from stock.

With our forward emphasis now shifting to business development, more resource is being recruited into the client facing activities. The benefit of this is already coming through with contract wins covering such iconic products as iPhone and Blackberry as well as leading network operators such as O2.

We have previously referred to our desire to have a more direct route to our key markets. To this end we recently established a sales presence in Hong Kong; the results so far are positive and we will now look to assess the merits of other markets.

Continental Europe has been a consistent challenge for us and whilst the market is well established it is significantly different to the UK. Generally mobile markets in these countries are not subsidised so heavily by the Operators and, as a consequence, the product we receive is typically older and of a lower specification. On average, phones collected in the UK sell for twice the value of those from Europe.

Recognising these structural differences, we are currently in negotiation to establish a vertically integrated 'in-country' solution that combines the inbound, processing and outbound sales activities. We expect to have our first facility in France up and running by the end of the current financial year.

Finally, the market for insurance related services provides another opportunity for the Group to develop. This part of our business, previously branded as Intec Distribution, has recently concluded an agreement with T-mobile in the UK that will support significant growth into the next financial year. There is also a small project starting in support of an existing client that will be our first foray into the International market.

Encouraging financial performance

Sales for the six months ended 31st December 2007 were £55.0m, including a contribution from the acquired CRC Group of £31.1m. Sales for the prior year period, which excluded CRC, were £38.7m, including sales of £5.3m from businesses subsequently closed. On a like-for-like basis therefore, Fonebak sales declined by a net £9.5m, but almost entirely as a result of the Board's decision to terminate the loss making mobile phone trading activities.

The actions taken over the past six months have delivered an immediate improvement in profitability. Headline profits were £2.8m for the six months to 31st December 2007, compared to a loss of £0.3m for the equivalent prior year period.

This year-on-year improvement reflects the benefits from the completion of our restructuring efforts. The operations in Stoke and Barnet were closed early in 2007 and losses in Romania have been much reduced. The mobile phone remarketing and recycling activities have been trading at lower volumes but focused on more profitable revenue share contracts. The combination of these actions has resulted in an improvement in the profitability of the original Fonebak businesses by £1.8m.

The former CRC businesses, which are not included in the prior year numbers, have contributed an additional £2.8m in the period. Each territory has traded at a profit, which means that all the principal activities of the Group are making a positive contribution.

After deducting corporate and other shared costs the net improvement year-on-year is £3.1m. For the purposes of comparison the headline Group profit for the six months to 31st December 2006, had the results of CRC been included, would have been £0.8m. On this basis the underlying profit improvement year-on-year would have been £2m.

Significant balance sheet improvements

Significant progress continues to be made in the management of the Group's finances. In the six months to 31st December 2007 the Group generated net cash inflows of £7.9m (2006: £3.4m) from operating activities, more than the total for the whole of the previous year.

The improved trading position allied to a continued focus on the management of working capital has led to a reduction in the Group's net debt from £10.9m at 30th June 2007 to £3.9m as at 31st December 2007 (2006: £3.9m). Virtually all the cash generated has therefore been applied to the reduction of the Group's borrowings.

The Group has also recently completed the successful syndication of its banking facilities, despite the challenging debt market, and now has a more appropriate financing structure in place to support the ongoing business. Exceptional costs of £0.4m in respect of loan fees connected with the acquisition of CRC in January 2007 have now been written off.

Despite the much improved trading and financial position of the Group the Directors are unable to consider a dividend at this time given past losses. However, with significant reserves in the share premium account the Board is currently considering whether the surplus can be converted to distributable reserves.

Outlook

The Group as a whole has made a good start to the second half and, allied to the strong performance in the first half, the Board is positive about the outlook for the year as a whole.

As noted already the main site in Glenrothes has made significant progress in a short space of time. The recent contract wins with first UPC and Virgin Media are demonstration of our

capability and will provide the volume the site needs to continue its development. As such a number of uncertainties anticipated in our Trading Update of 21 December 2007 are being resolved positively.

With an improving sales pipeline and profitable operations in all our key markets and territories, the Group is well placed to take the next step. The rebranding of the Group marks the turning point as the recovery phase shifts to one with greater emphasis on growth and more aggressive marketing of our capabilities.

Cautionary statement

This announcement contains certain forward-looking statements with respect to the financial condition, results, operations and businesses of Regenersis Plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause the actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. Nothing in this announcement should be construed as a profit forecast.

G M Stokes

Chief Executive Officer

D W Kelham

Chief Financial Officer

Consolidated Income Statement

Six months ended 31 December 2007

	Note	Six months ended 31 December 2007 (unaudited) £'000	Six months ended 31 December 2006 (unaudited) £'000	Year ended 30 June 2007 (restated under IFRS) £'000
Revenue		54,990	38,678	96,130
Headline profit / (loss)	2	2,845	(311)	(324)
Exceptional goodwill impairment		-	-	(6,581)
Amortisation of acquired intangible asset		(205)	-	(171)
Exceptional restructuring costs		(34)	-	(3,133)
Share based payments		(46)	(65)	124
Operating profit/(loss)		2,560	(376)	(10,085)
Net financing costs		(556)	(156)	(646)
Exceptional finance charge	3	(406)	-	-
Profit/(loss) before tax		1,598	(532)	(10,731)
Taxation	4	(576)	59	670
Profit/(loss) for the period		1,022	(473)	(10,061)
Profit/(loss) per share – basic	5	3.61p	(2.46)p	(45.70)p
Profit/(loss) per share – diluted	5	3.61p	(2.46)p	(45.70)p
Headline profit/(loss) per share – basic	5	5.58p	(2.13)p	(5.63)p
Headline profit/(loss) per share – diluted	5	5.58p	(2.13)p	(5.63)p

Consolidated Statement of Recognised Income and Expense

Six months ended 31 December 2007

		Six months ended 31 December 2007 (unaudited) £'000	Six months ended 31 December 2006 (unaudited) £'000	Year ended 30 June 2007 (restated under IFRS) £'000
Exchange adjustment		584	(1)	-
Cash flow hedge		(281)	-	248
Tax on items taken directly to equity		84	-	(74)
Net income recognised directly to equity		387	(1)	174
Profit/(loss) for the period		1,022	(473)	(10,061)
Total recognised income and expenses relating to the period		1,409	(474)	(9,887)

Consolidated Balance Sheet

As at 31 December 2007

	Note	Six months ended 31 December 2007 (unaudited) £'000	Six months ended 31 December 2006 (unaudited) £'000	Year ended 30 June 2007 (restated under IFRS) £'000
Assets				
Non-current assets				
Goodwill		23,978	19,214	23,978
Other intangible assets		1,981	112	2,121
Property, plant and equipment		2,429	628	2,425
Deferred tax		744	32	600
		29,132	19,986	29,124
Current assets				
Inventory		3,471	5,290	6,079
Trade and other receivables		11,566	6,759	16,411
Current tax asset		727	5	1,287
Derivative and financial instruments		–	33	281
Cash and cash equivalents		6,101	643	9,072
		21,865	12,730	33,130
Current liabilities				
Borrowings		–	(1,623)	(5,536)
Trade and other payables		(24,456)	(12,673)	(27,632)
		(24,456)	(14,296)	(33,168)
Net current liabilities		(2,591)	(1,566)	(38)
Total assets less current liabilities		26,541	18,420	29,086
Non-current liabilities				
Borrowings	8	(10,000)	(2,949)	(14,000)
		(10,000)	(2,949)	(14,000)
Net assets		16,541	15,471	15,086
Equity				
Ordinary share capital		566	384	566
Share premium		25,304	15,076	25,304
Hedging reserve		–	23	197
Translation reserve		584	(1)	–
Retained earnings		(9,913)	(11)	(10,981)
Total equity		16,541	15,471	15,086

Consolidated Cash Flow Statement

Six months ended 31 December 2007

	Note	Six months ended 31 December 2007 (unaudited) £'000	Six months ended 31 December 2006 (unaudited) £'000	Year ended 30 June 2007 (restated under IFRS) £'000
Profit for the period		1,022	(473)	(10,061)
Adjustments for:				
Finance charges		556	156	646
Tax expense		492	(59)	(611)
Depreciation on property, plant and equipment		723	166	964
Amortisation of intangible assets		106	40	318
Amortisation of acquired intangible assets		205	-	171
Impairment of goodwill		-	-	6,581
Exceptional finance charge		406	-	-
Loss on disposal of intangible assets		26	-	-
Share-based payment expense		46	65	(124)
Operating cash flows before movement in working capital		3,582	(105)	(2,116)
Decrease/(increase) in inventories		2,764	2,824	4,759
Decrease/(increase) in receivables		4,879	(1,837)	2,249
(Decrease)/increase in payables		(3,228)	2,996	3,404
Cash flows from operating activities		7,997	3,878	8,296
Tax paid		(77)	(468)	(600)
Net cash from operating activities		7,920	3,410	7,696
Cash flows from investing activities				
Purchase of property, plant and equipment		(727)	(131)	(496)
Purchase of intangible assets		(197)	-	(158)
Proceeds from disposal of property, plant & equipment		-	-	7
Interest received		84	58	175
Acquisition of subsidiary		-	(406)	(14,044)
Cash acquired with subsidiary		-	-	(1,302)
Deferred consideration in respect of previous acquisition		-	(2,442)	(2,682)
Net cash used in investing activities		(840)	(2,921)	(18,500)
Cash flows from financing activities				
Dividends paid	6	-	(192)	(192)
Interest paid		(374)	(178)	(785)
Proceeds from issue of share capital		-	-	10,004
Costs associated with issue of shares		-	-	(787)
New borrowings		-	-	19,500
Repayment of borrowings		(9,500)	(600)	(9,365)
Repayment of finance leases		-	(13)	(70)
Net cash used in financing activities		(9,874)	(983)	18,305
Net increase in cash and cash equivalents		(2,794)	(494)	7,501
Other non cash movements		257	-	-
Cash and cash equivalents at the beginning of year		8,638	1,137	1,137
Cash and cash equivalents at end of year		6,101	643	8,638

Notes to the Interim Report

1. Basis of preparation

This Interim Report has been prepared in accordance with the accounting policies expected to be applied in the financial statements for the year ending 30 June 2008 by the Regeneris Plc Group ("the Group") under International Financial Reporting Standards (IFRS) for the first time. All IFRS and International Accounting Standards ("IAS") and interpretations currently endorsed by the International Accounting Standards Board ("IASB") and its committees as required to be adopted by AIM listed companies have been applied.

The Group previously reported under UK Generally Accepted Accounting Principles ("UK GAAP"). A reconciliation from the previously reported UK GAAP results and financial position to those under IFRS has been prepared as at the transition date to IFRS, 1 July 2006, and for the subsequent periods for the six months ended 31 December 2006 and the year ended 30 June 2007, was published on 5 February 2008.

The figures for the year ended 30 June 2007 are based upon the Group's audited accounts prepared under UK GAAP at that date and adjusted under IFRS. The statutory accounts for the year ended 30 June 2007 have been delivered to the Registrar of Companies. The Auditors' report on those accounts was unqualified and did not contain a statement under Section 237(2) or 237(3) of the Companies Act 1985.

This unaudited Interim Report was approved by the Board of Directors on 4 March 2008.

2. Headline profit

"Headline profit" is the key profit measure used by the Board to assess the underlying financial performance of the operating divisions and the Group as a whole. "Headline profit" is stated before amortisation of acquired intangible assets, goodwill impairment charges, exceptional restructuring costs and share based payments.

3. Exceptional finance charge

The exceptional finance charge of £406,000 arises in respect of loan fees connected with the acquisition of CRC Group plc in January 2007. On completion of the Group's new banking facilities in September 2007 the costs previously carried forward have been written off in full.

4. Taxation

The tax charge for the six months ended 31 December 2007 is based in the estimated tax rate for the full year in each jurisdiction. The tax charge for the period includes a tax credit of £122,000 in relation to the exceptional finance charge amortised in the period.

5. Earnings per share

	Six months ended 31 December 2007	Six months ended 31 December 2006	Year ended 30 June 2007
	Pence	Pence	Pence
EPS Summary			
Basic EPS	3.61p	(2.46)p	(45.70)p
Diluted EPS	3.61p	(2.46)p	(45.70)p
Adjusted EPS	5.58p	(2.13)p	(5.63)p
Diluted adjusted EPS	5.58p	(2.13)p	(5.63)p

An adjusted earnings per share has also been presented, which the Directors consider gives a useful additional indication of the Group's performance. The effects of the adjustments are as follows:

	Six months ended 31 December 2007	Six months ended 31 December 2006	Year ended 30 June 2007	Six months ended 31 December 2007	Six months ended 31 December 2006	Year ended 30 June 2007
	Pence per share	Pence per share	Pence per share	£'000	£'000	£'000
Profit/(loss) for the period	3.61p	(2.46)p	(45.70)p	1,022	(473)	(10,061)
Reconciliation to adjusted profit:						
Exceptional goodwill impairment	-	-	29.89p	-	-	6,581
Intangible asset amortisation	0.72p	-	0.78p	205	-	171
Exceptional finance charge	1.00p	-	-	284	-	-
Exceptional restructuring costs	0.09p	-	9.96p	24	-	3,133
Share based payments	0.16p	0.33p	(0.56)p	46	65	(124)
Adjusted profit	5.58p	(2.13)p	(5.63)p	1,581	(408)	(300)

	Six months ended 31 December 2007	Six months ended 31 December 2006	Year ended 30 June 2007
	'000	'000	'000
Number of shares ('000)			
Weighted average number of shares used to calculate basic earnings per share	28,343	19,200	22,015
Dilutive share options	-	-	-
Number of shares used to calculate diluted earnings per share	28,343	19,200	22,015

The Group does not currently have any dilutive options. The 2,150,000 shares issued to the Employee Benefit Trust on 26 July 2007 at 55.5p are included in the basic earnings per share calculation.

6. Dividends

No interim dividend is proposed in respect of the six months to 31 December 2007. A final dividend in respect of the year ended 30 June 2006 of 1.0 pence per share, totalling £192,000, was paid on 27 December 2006.

7. Net debt

	31 December 2007 (unaudited) £'000	31 December 2006 (unaudited) £'000	30 June 2007 (restated under IFRS) £'000
Cash and cash equivalents	6,101	643	9,072
Overdrafts	-	-	(434)
Unamortised loan fees	-	-	406
Bank borrowings - current	-	(1,600)	(5,500)
Bank borrowings - non-current	(10,000)	(2,900)	(14,000)
Finance leases	-	(72)	(8)
Interest rate swap	-	33	281
Net debt	(3,899)	(3,896)	(10,183)

8. Borrowings

The Group concluded the reshaping of its banks facilities with KBC Bank NV on 18th September 2007. Originally the facility of £25m was structured as a £17.5m term loan, repayable by ten, 6 monthly, equal instalments of £1.75m, commencing on 30th September 2007 and a £7.5m Revolving Credit Facility ("RCF").

The facility is now structured completely as a RCF facility which reduces by £1.75m each 6 months commencing on 30th September 2007.

As at 31 December 2007 the facility available to the Group was £23.25 million of this £10 million was drawn down in cash and £5 million in letter of credits resulting in an unutilised facility of £8.25 million.

Following the completion of the syndication in February 2008, which saw Royal Bank of Scotland take on a share of the facility, the Group has voluntarily reduced the facility with its banks to £18.25 million as the £5 million letter of credits are no longer required. The Group will continue to review the facility available and make additional repayments where appropriate.

9. Copies of the Interim Statement

Further copies of the Interim Report are available from the registered office, 4 Elm Place, Old Witney Road, Eynsham, Oxfordshire, OX29 4BD