

Company number 05542880

IMMERSION TECHNOLOGIES INTERNATIONAL PLC
REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2008

Immersion Technologies International Plc (“Immersion” or “the Company”) is an English and Welsh incorporated, registered and domiciled company which is quoted on the London Stock Exchange Alternative Investment Market (“AIM”). Its principal activities are the product development, design and manufacture of unique and high performance audio solutions.

Contents

Chairman’s Statement	3
Directors’ Report	5
Corporate Governance Statement	8
Independent Auditors Report to the Shareholders of Immersion Technologies International Plc	10
Group Income Statement for the year ended 30 June 2008	12
Group Balance Sheet as at 30 June 2008	13
Company Balance Sheet as at 30 June 2008	14
Group Cash Flow Statement for the year ended 30 June 2008	15
Company Cash Flow Statement for the year ended 30 June 2008	16
Statement of Changes in Equity for the year ended 30 June 2008	17
Statement of Changes in Equity for the year ended 30 June 2008	18
Notes to the financial statements for the year ended 30 June 2008	19
Corporate Information	37

Chairman's Statement

The Company has had mixed success over the last 12 months in its progress. The setback for the Company was when Nakamichi Corporation Limited ("Nakamichi") failed to take product pursuant to its Supply Agreement with the Company. As a result the Company's strategy has evolved from supplying complete built units to supplying components. There has been some continued interest in the Company's technology from leading consumer electronics companies when the Company displayed its products recently at the IFA Show in Berlin and the Korean Audio Show. In order to minimise the cash burn the Company has streamlined its head count and closed its operations in Singapore and China.

FINANCIAL RESULTS

The Group's loss for the year is £2,468,816 (period from 2 March 2006 to 30 June 2007 was £2,627,005), in which it earned sales revenue of £18,703, license revenue and interest income of £46,666 and £42,061 respectively. During the year the Group spent £73,017 on research and development and building a broad product range. Amortisation of intangible assets, such as intellectual property, is £245,800 (prior period was £234,941) for the year and the employee and director remuneration costs totalled £951,489 (prior period was £567,850).

REVIEW OF OPERATIONS

The Technology

The Company has made progress in the evolution of the technology as follows:

Electrostatic Loudspeakers (ESL)

The product development strategy has moved from the manufacturer of complete built units to providing components for customers to add into their product range as necessary. This strategy has the added value of enabling customers to specify the components which the Company can then design and supply in reduced lead times.

Conventional Cone Speakers (CCS)

The CCS technology has evolved from large standalone sub-woofa products to developing smaller complete units for the consumer electronic industry. In particular the Company has developed a sound bar for use in flat panel TVs. The experience gained from supplying the CCS technology into the automotive industry has enabled small components to be developed producing audiophile quality sound.

Trade Shows

During the year, the Company exhibited its products at trade shows in Germany and Korea where positive interest was shown for our Company products. The Company continues to produce sample and prototypes for potential customers in order to obtain a volume order for its products.

Overseas Facilities

As a result of Nakamichi failing to take manufactured product from the Company, we have decided to shut the manufacturing facility in China. The Company has however retained a small prototype development centre where its sample and prototypes can be produced cost efficiently.

Our Singapore sales and account management office for Nakamichi was closed. Headcount across the Group has been reduced to focus on development of core products.

Nakamichi

The Company signed and executed a design, development and manufacturing contract with Nakamichi dated 22 December 2006 ('the Supply Agreement') for the supply of the Dragon® Hybrid ESL loudspeakers which was due to have the first shipment in December 2007. This contract with Nakamichi for supply of products was worth approximately US\$12.1 over a two year period with a minimum commitment for US\$5.1m.

The Company completed production of more than 100 pairs of the Dragon® Hybrid ESL loudspeakers for Nakamichi pursuant to the Supply Agreement. The first consignment of product was available for collection by Nakamichi on 10 December 2007. However, since that time Nakamichi has failed to collect and pay the balance for the consignment and has failed to issue further purchase orders as required under the Supply Agreement. The Company has placed Nakamichi on notice of this contravention and has reserved all its rights. The Company continues to resolve the matter commercially, failing which it may be required to issue legal proceedings in order to enforce its rights and safeguard the interests of shareholders.

Chairman's Statement (continued)

OUTLOOK

The Company continues to look for ways in which it can exploit the technology. Nakamichi was a setback but the Company is working with other consumer electronic companies in order to solve their audio issues.

The Company will look at other opportunities in order to preserve shareholder value within the Company and in the meantime we will actively conserve our cash as much as possible. The directors would like to take this opportunity to thank our shareholders for their continued support.



David Lenigas
Non Executive Chairman
9 December 2008

Directors' Report

The Directors are pleased to present this year's annual report together with the consolidated financial statements for the period ended 30 June 2008.

Principal Activities

The principal activity of the Group is the product development, design and manufacture of unique and high performance audio solutions.

Business Review and future developments

A review of the current and future development of the Group's business is given in the Chairman's Statement on page 3.

Results and Dividends

Loss on ordinary activities of the Group after taxation amounted to £2.47 million. The Directors do not recommend payment of a dividend.

Key Performance Indicators

Given the nature of the business and that the Group is in the development phase of operations, the directors are of the opinion that analysis using KPI's is not appropriate for an understanding of the development, performance or position of our businesses at this time.

Post Balance Sheet events

At the date these financial statements were approved, being 9 December 2008, the Directors were not aware of any significant post balance sheet events other than those set out in the notes to the financial statements.

Substantial Shareholdings

At 9 December 2008 the following had notified the Company of disclosable interests in 3% or more of the nominal value of the Company's shares:

Shareholder	Number of Shares	% of Issued Capital
E D Evans Pty Limited	38,050,000	16.67
Security Transfer Registrars Pty	26,143,749	11.46
CIPAF SA	15,000,000	6.57
Miami Properties Plc	12,000,000	5.26
CIM Special Situations Fund Limited	10,614,285	4.65
Lindsay Alfred Champion	8,150,000	3.57
Vidacos Nominees Limited	7,975,000	3.49

Directors

The names of the Directors who served during the year are set out below:

Director	Date of Appointment	Date of Resignation
Executive Directors		
Kiran Morzaria – Executive Director		
Craig Evans – Executive Director		29 January 2008
Non-Executive Directors		
David Lenigas- Non-executive Chairman	29 January 2008	
Gregory Turnidge –Former Non-executive Chairman		29 January 2008
Alexander Barblett – Non-executive Director		
Vincent Fodera – Executive Director		7 July 2008
Blair Snowball – Executive Director		31 January 2008

Directors' Report (continued)

Directors' Remuneration

The Company remunerates the Directors at a level commensurate with the size of the Company and the experience of its Directors. The Remuneration Committee has reviewed the Directors' remuneration and believes it upholds the objectives of the Company with regard to this issue. Details of the Director emoluments and payments made for professional services rendered are set out in Note 5 to the financial statements.

Directors' Interests

The beneficial interests of the serving Directors in the shares and options of the Company during the period to 30 June 2008 were as follows:

Beneficial and non-beneficial	At 30 June 2008		At 30 June 2007		At 30 June 2008		At 30 June 2007	
	Number of Shares	%	Number of Shares	%	Number of Options	of	Number of Options	of
David Lenigas	-	-	-	-	2,500,000	-	-	-
Kiran Morzaria (1)	711,428	0.31	711,428	0.32	750,000	-	-	-
Alexander John Barblett (3)	600,000	0.26	600,000	0.27	1,250,000	-	1,500,000	-
Vincent David Fodera (2)	2,787,384	1.22	1,560,000	0.69	2,500,000	-	2,750,000	-
Blair Snowball	-	-	-	-	-	-	-	-
Craig Evans	-	-	-	-	-	-	-	-
Gregory Turnidge	-	-	-	-	-	-	-	-

1) Of which 571,428 of the current shareholding are held on account with TD Waterhouse Nominees (Europe) Limited and 40,000 shares are held by Cornell De Beer Morzaria who is a related party to Kiran Caldas Morzaria.

2) All shares are beneficially held through Security Transfer Registrars Pty Ltd.

3) Of which 400,000 shares are registered in a third party company, (Entopia Consulting Limited), over which Mr Barblett has an option to acquire the whole or part of the issued share capital therein, and 200,000 are held by Lisa Mitchell who is a related party to the Director.

Corporate Governance

A statement on Corporate Governance is set out on pages 8 - 9.

Environmental Responsibility

The Company is aware of the potential impact that its subsidiary companies may have on the environment. The Company ensures that it, and its subsidiaries at a minimum comply with the local regulatory requirements and the revised Equator Principles with regard to the environment.

Employment Policies

The Group will be committed to promoting policies which ensure that high calibre employees are attracted, retained and motivated, to ensure the ongoing success for the business. Employees and those who seek to work within the Group are treated equally regardless of sex, marital status, creed, colour, race or ethnic origin.

Health and Safety

The Group's aim will be to achieve and maintain a high standard of workplace safety. In order to achieve this objective the Group will provide training and support to employees and set demanding standards for workplace safety.

Payment to Suppliers

The Group's policy is to agree terms and conditions with suppliers in advance; payment is then made in accordance with the agreement provided the supplier has met the terms and conditions. There are no material trade payables as at 30 June 2008.

Political Contributions and Charitable Donations

During the period the Group did not make any political contributions or charitable donations.

Directors' Report (continued)

Annual General Meeting ("AGM")

This report and financial statements will be presented to shareholders for their approval at the AGM. The Notice of the AGM will be distributed to shareholders together with the Annual Report.

Statement of disclosure of information to auditors

As at the date of this report the serving directors confirm that:

- So far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as directors' in order to make themselves aware of any relevant audit information and to establish that the Company's auditor are aware of that information

Auditors

A resolution to appoint Chapman Davis LLP and to authorise the Directors to fix their remuneration will be proposed at the next Annual General Meeting.

Going Concern

Notwithstanding the loss incurred during the period under review, the Directors are of the opinion that ongoing evaluations of the Company's interests and cash resources, indicate that preparation of the Group's accounts on a going concern basis is appropriate.

Statement of Directors' Responsibilities

The directors prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the group and for taking reasonable steps for the prevention and detection of fraud and other irregularities. They are also responsible for ensuring that the annual report includes information required by the Alternative Investment Market.

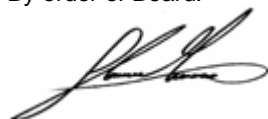
Electronic communication

The maintenance and integrity of the Company's website is the responsibility of the directors: the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

The Company's website is maintained in accordance with AIM Rule 26.

Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions

By order of Board:



Kiran Morzaria
Director
9 December 2008

Corporate Governance Statement

The Board is committed to maintaining high standards of corporate governance. The Listing Rules of the Financial Services Authority incorporate the Combined Code, which sets out the principles of Good Governance, and the Code of Best Practice for listed companies. Whilst the Company is not required to comply with the Combined Code, the Company's corporate governance procedures take due regard of the principles of Good Governance set out in the Combined Code in relation to the size and the stage of development of the Company.

Board of Directors

The Board of Directors currently comprises 2 Non-Executive Directors, and 1 Executive Director. The Directors are of the opinion that the Board comprises a suitable balance and that the recommendations of the Combined Code have been implemented to an appropriate level. The Board, through the Chairman and the Finance Director in particular, maintains regular contact with its advisers and public relations consultants in order to ensure that the Board develops an understanding of the views of major shareholders about the Company.

Board Meetings

The Board meets regularly throughout the year. For the period ending 30 June 2008 the Board met 7 times in relation to normal operational matters. The Board is responsible for formulating, reviewing and approving the Company's strategy, financial activities and operating performance. Day to day management is devolved to the Executive Directors who are charged with consulting the Board on all significant financial and operational matters.

All Directors have access to the advice of the Company's solicitors and the Company Secretary necessary information is supplied to the Directors on a timely basis to enable them to discharge their duties effectively, and all Directors have access to independent professional advice, at the Company's expense, as and when required.

Board Committees

The Board has established the following committees, each which has its own terms of reference:

Audit Committee

The Audit Committee considers the Group's financial reporting (including accounting policies) and internal financial controls. The Audit Committee comprises 2 Directors, David Lenigas (Chairman) and Kiran Morzaria, and is responsible for ensuring that the financial performance of the Group is properly monitored and reported on.

Remuneration Committee

The Remuneration Committee is responsible for making recommendations to the Board on Directors' and senior executives' remuneration. It comprises 2 Directors, David Lenigas (Chairman) and Kiran Morzaria. Non-Executive Directors' remuneration and conditions are considered and agreed by the Board. The Committee will also have regard to the terms which may be required to attract an experienced executive to join the Board from another company.

Internal controls

The Directors acknowledge their responsibility for the Group's systems of internal controls and for reviewing their effectiveness. These internal controls are designed to safeguard the assets of the Company and to ensure the reliability of financial information for both internal use and external publication. Whilst they are aware that no system can provide absolute assurance against material misstatement or loss, in light of increased activity and further development of the Company, continuing reviews of internal controls will be undertaken to ensure that they are adequate and effective.

Risk Management

The Board considers risk assessment to be important in achieving its strategic objectives. There is a process of evaluation of performance targets through regular reviews by senior management to forecasts. Project milestones and timelines are regularly reviewed.

Corporate Governance Statement (continued)

Risks and uncertainties

The principal risks facing the Company are set out below. Risk assessment and evaluation is an essential part of the Group's planning and an important aspect of the Group's internal control system.

General and economic risks

- contractions in the world's major economies or increases in the rate of inflation resulting from international conditions;
- movements in the equity and share markets in the United Kingdom and throughout the world;
- weakness in global equity and share markets in particular, in the United Kingdom, and adverse changes in market sentiment towards the resource industry;
- currency exchange rate fluctuations and, in particular, the relative prices of Australian Dollar, Chinese Yuan and Singapore Dollar and the UK Pound;
- exposure to interest rate fluctuations; and
- adverse changes in factors affecting the success of exploration and development operations, such as increases in expenses, changes in government policy and further regulation of the industry; unforeseen major failure, breakdowns or repairs required to key items of plant and equipment resulting in significant delays, notwithstanding regular programmes of repair, maintenance and upkeep; variations in grades and unforeseen adverse geological factors or prolonged weather conditions.

Funding risk

- The Group or the companies in which it has invested may not be able to raise, either by debt or further equity, sufficient funds to enable completion of planned exploration, investment and/or development projects.

Market risk

- The ability of the Group (and the companies it invests in) to continue to secure sufficient and profitable sales contracts to support its operations is a key business risk.

Insurance

The Group maintains insurance in respect of its Directors and Officers against liabilities in relation to the Company.

Treasury Policy

The Group finances its operations through equity and holds its cash as a liquid resource to fund the obligations of the Group. Decisions regarding the management of these assets are approved by the Board. Refer Note 15.

Securities Trading

The Board has adopted a Share Dealing Code that applies to Director, senior management and any employee who is in possession of 'inside information'. All such persons are prohibited from trading in the Company's securities if they are in possession of 'inside information'. Subject to this condition and trading prohibitions applying to certain periods, trading can occur provided the relevant individual has received the appropriate prescribed clearance.

Relations with Shareholders

The Board is committed to providing effective communication with the shareholders of the Company. Significant developments are disseminated through stock exchange announcements and regular updates of the Company website. The Board views the AGM as a forum for communication between the Company and its shareholders and encourages their participation in its agenda.

Independent Auditors Report to the Shareholders of Immersion Technologies International Plc

We have audited the group and parent company financial statements of Immersion Technologies International Plc for the year ended 30 June 2008, which comprise the Group Income Statement, the Group and Parent Balance Sheets, Group and Parent Cash Flow Statement, Group and Parent Statement of Changes in Equity, and the related notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report, and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985,. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, Chairman's Statement and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent Auditors Report to the Shareholders of Immersion Technologies International Plc (continued)

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 30 June 2008 and of its loss for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 June 2008;
- the group and parent financial statements have been properly prepared in accordance with the Companies Act 1985 and; and
- the information given in the Directors' Report is consistent with the financial statements.



Chapman Davis LLP
Registered Auditors
London
9 December 2008


Group Income Statement for the year ended 30 June 2008


	Notes	Year ended 30 June 2008 £	Period 2 March 2006 to 30 June 2007 £
Revenue	3	68,501	17,971
Cost of Sales		<u>(270,758)</u>	<u>(592)</u>
Gross (Loss)/Profit		(202,257)	17,379
Administrative expenses	4	(2,308,620)	(2,613,438)
(Loss) from operations		<u>(2,510,877)</u>	<u>(2,596,059)</u>
Finance Income	7	<u>42,061</u>	<u>38,278</u>
(Loss) before tax		(2,468,816)	(2,557,781)
Tax expense	6	-	(69,224)
(Loss) for the period attributable to shareholders		<u><u>(2,468,816)</u></u>	<u><u>(2,627,005)</u></u>
LOSS PER SHARE	Notes	Year ended 30 June 2008	Period 2 March 2006 to 30 June 2007
Basic	8	<u>1.08 pence</u>	<u>1.80 pence</u>
Diluted	8	<u>1.08 pence</u>	<u>1.80 pence</u>

Group Balance Sheet as at 30 June 2008

	Notes	As at 30 June 2008 £	As at 30 June 2007 £
Non-current assets			
Intangible assets	9	800,000	6,683,505
Plant and equipment	10	-	68,758
		800,000	6,752,263
Current assets			
Trade and other receivables	11	49,588	260,136
Cash and cash equivalents		272,113	2,121,858
		321,701	2,381,994
Total assets		1,121,701	9,134,257
Current liabilities			
Trade and other payables	13	273,204	360,221
Provisions		1,949	-
Corporation tax liability		-	11,771
Total liabilities		275,153	371,992
Net assets		846,548	8,762,265
Equity			
Share capital	16	1,597,573	1,574,087
Share premium reserve		2,868,959	2,824,117
Unissued share capital		185,000	-
Foreign exchange reserve		60,240	51,288
Other reserves		-	5,933,629
Share-based payments		80,360	1,006,149
Accumulated loss		(3,945,584)	(2,627,005)
		846,548	8,762,265

The financial statements were approved by the board of directors and authorised for issue on 9 December 2008. They were signed on its behalf by ;


Kiran Mozaria
Director


David Lenigas
Director

Company Balance Sheet as at 30 June 2008

	Notes	As at 30 June 2008 £	As at 30 June 2007 £
Non-Current assets			
Investment in subsidiaries	18	2,433,213	18,683,895
Amounts due from subsidiaries	21	885,585	763,688
		<u>3,318,798</u>	<u>19,447,583</u>
Current assets			
Trade and other receivables	12	31,675	114,865
Cash and cash equivalents		197,305	1,999,166
		<u>228,980</u>	<u>2,114,031</u>
Total assets		<u>3,547,778</u>	<u>21,561,614</u>
Current liabilities			
Trade and other payables	14	93,315	186,050
Corporation tax liability		-	11,771
Amounts payable to subsidiaries	21		466,669
Total liabilities		<u>93,315</u>	<u>664,490</u>
Net assets		<u><u>3,454,463</u></u>	<u><u>20,897,124</u></u>
Equity			
Share capital	16	1,597,573	1,574,087
Share premium		2,868,959	2,824,117
Unissued share capital		185,000	-
Share-based payment reserve		80,360	59,801
Other reserves		-	16,798,801
Accumulated loss		(1,277,429)	(359,682)
		<u>3,454,463</u>	<u>20,897,124</u>

The financial statements were approved by the board of directors and authorised for issue on 9 December 2008. They were signed on its behalf by ;

Kiran Morzaria
Finance Director



David Lenigas
Director



Group Cash Flow Statement for the year ended 30 June 2008

	Year ended 30 June 2008	Period 2 March 2006 to 30 June 2007
OPERATING ACTIVITIES		
Loss after tax for the period	(2,468,816)	(2,627,005)
Adjustments for:		
Depreciation	171,541	2,784
Amortisation	245,800	234,941
Loss on disposal of assets	(4,726)	-
Share-based payments	45,559	1,019,302
Finance income	(42,061)	(38,278)
Income tax expense	-	69,224
Increase in provisions	1,949	-
Decrease in receivables	210,548	111,541
(Decrease)/ Increase in payables	(87,017)	90,116
CASH USED IN OPERATING ACTIVITIES	<u>(1,927,223)</u>	<u>(1,137,375)</u>
Income tax paid	(11,771)	-
NET CASH USED IN OPERATING ACTIVITIES	<u>(1,938,994)</u>	<u>(1,137,375)</u>
INVESTING ACTIVITIES		
Interest received	42,061	38,278
Cash acquired from business combinations	-	3,434,766
Proceeds from disposal of assets	4,704	-
Purchase of patents	(44,416)	(509,652)
Purchase of plant and equipment	(112,172)	(63,864)
NET CASH USED IN INVESTING ACTIVITIES	<u>(109,823)</u>	<u>2,899,528</u>
FINANCING ACTIVITIES		
Proceeds on issuing of ordinary shares	43,328	1,015,000
Proceeds on share capital-un issued	185,000	-
Cost of issue of ordinary shares	-	(604,007)
NET CASH FROM FINANCING ACTIVITIES	<u>228,328</u>	<u>410,993</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,820,489)	2,173,146
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,121,858	-
Exchange loss on cash and cash equivalents	(29,256)	(51,288)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>272,113</u>	<u>2,121,858</u>

The above Cash Flow should be read in conjunction with the accompanying notes.

Company Cash Flow Statement for the year ended 30 June 2008

	Year ended 30 June 2008	Period 1 September 2006 to 30 June 2007
Notes	£	£
OPERATING ACTIVITIES		
Loss after tax for the period	(917,748)	(274,985)
Adjustments for:		
Depreciation	2,973	-
Share-based payments	45,559	6,618
Finance income	(40,893)	(132,078)
Income tax expense	-	11,771
Decrease / (Increase) in receivables	83,190	(80,661)
(Decrease) / Increase in payables	(92,735)	133,821
	<u>(919,654)</u>	<u>(335,514)</u>
CASH USED IN OPERATING ACTIVITIES		
Income tax paid	(11,771)	-
	<u>(931,425)</u>	<u>(335,514)</u>
INVESTING ACTIVITIES		
Interest received	40,893	132,078
Purchase of plant and equipment	(2,973)	-
Loans to subsidiaries	(331,443)	(763,687)
Loans from subsidiaries	(257,122)	-
Investment in Subsidiaries	(548,119)	(187,100)
NET CASH (USED IN) / FROM INVESTING ACTIVITIES	<u>(1,098,764)</u>	<u>(818,709)</u>
FINANCING ACTIVITIES		
Proceeds on issuing of ordinary shares	43,328	-
Proceeds on share capital-unissued	185,000	-
Cost of issue of ordinary shares	-	(575,290)
NET CASH (USED IN) / FROM FINANCING ACTIVITIES	<u>228,328</u>	<u>(575,290)</u>
NET (DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS	(1,801,861)	(1,729,513)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,999,166	3,728,679
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>197,305</u></u>	<u><u>1,999,166</u></u>

The above Cash Flow should be read in conjunction with the accompanying notes.

Statement of Changes in Equity for the year ended 30 June 2008

Group

	Share Capital	Share Premium	Unissued Share Capital	Share Based Payments	Foreign Exchange	Other Reserves	Accumulated Losses	Total
	£	£	£	£	£	£	£	£
Balance at 2 March 2006	-	-	-	-	-	-	-	-
Foreign translation differences	-	-	-	-	51,288	-	-	51,288
Loss for the period	-	-	-	-	-	-	(2,627,005)	(2,627,005)
Total recognised income and expense for the period	-	-	-	-	51,288	-	(2,627,005)	(2,575,717)
Share issue	175,904	5,743,257	-	(13,153)	-	-	-	5,906,008
Cost of share issue	-	(28,717)	-	-	-	-	-	(28,717)
Value of reverse acquisition	1,398,183	(2,890,423)	-	-	-	5,933,629	-	4,441,389
Share-based payments	-	-	-	1,019,302	-	-	-	1,019,302
Balance at 30 June 2007	1,574,087	2,824,117	-	1,006,149	51,288	5,933,629	(2,627,005)	8,762,265
Cancelled share based payment	-	-	-	53,183	-	(53,183)	-	-
Cancelled share based payment	-	-	-	(999,530)	-	-	999,530	-
Foreign translation differences	-	-	-	-	-	(150,707)	150,707	-
Balance at 30 June 2007	1,574,087	2,824,117	-	59,802	51,288	5,864,739	(1,476,768)	8,762,265
Foreign translation differences	-	-	-	-	8,952	-	-	8,952
Loss for the period	-	-	-	-	-	-	(2,468,816)	(2,468,816)
Total recognised income and expense for the period	-	-	-	-	8,952	-	(2,468,816)	(2,459,864)
Share issue	23,486	44,842	185,000	-	-	-	-	253,328
Share-based payments	-	-	-	27,177	-	-	-	27,177
Cancelled share based payment	-	-	-	(6,619)	-	-	-	(6,619)
Impairment charge	-	-	-	-	-	(5,682,119)	-	(5,682,119)
Foreign translation differences	-	-	-	-	-	(47,620)	-	(47,620)
Balance at 30 June 2008	1,597,573	2,868,959	185,000	80,360	60,240	-	(3,945,584)	846,548

Statement of Changes in Equity for the year ended 30 June 2008 (continued)

Company

	Share Capital	Share Premium	Unissued Share Capital	Share Based Payments	Foreign Exchange	Other Reserves	Accumulated Losses	Total Equity
	£	£	£	£	£	£	£	£
Balance at 31 August 2006	342,762	3,399,407	-	53,183	-	-	(84,698)	3,710,654
Loss for the period	-	-	-	-	-	-	(274,985)	(274,985)
Total recognised income and expense for the period	-	-	-	-	-	-	(274,985)	(274,985)
Share issue	1,231,326	-	-	-	-	-	-	1,231,326
Value of reverse acquisition	-	-	-	-	-	16,798,801	-	16,798,801
Cost of share issue	-	(575,290)	-	-	-	-	-	(575,290)
Share-based payment	-	-	-	6,618	-	-	-	6,618
Balance at 30 June 2007	1,574,087	2,824,117	-	59,801	-	16,798,801	(359,682)	20,987,124
Loss for the period	-	-	-	-	-	-	(917,747)	(917,747)
Total recognised income and expense for the period	-	-	-	-	-	-	(917,747)	(917,747)
Share issue	23,486	44,842	185,000	-	-	-	-	253,328
Share-based payment	-	-	-	27,177	-	-	-	27,177
Cancelled share based payment	-	-	-	(6,618)	-	-	-	(6,618)
Impairment charge	-	-	-	-	-	(16,798,801)	-	(16,798,801)
Balance at 30 June 2008	1,597,573	2,868,959	185,000	80,360	-	-	(1,277,429)	3,454,463

1 SIGNIFICANT ACCOUNTING POLICIES

The following account policies are those of the Group and apply to the consolidated financial statements.

Authorisation of financial statements

The Group financial statements of Immersion Technologies International Plc for the year ended 30 June 2008 were authorised for issue by the Board on 9 December 2008 and the balance sheets signed on the Board's behalf by Mr. Kiran Morzaria and Mr. David Lenigas. The Company is a public limited Company incorporated in England & Wales under the Companies Act 1985. The Company's ordinary shares are traded on the AIM Market operated by the London Stock Exchange.

Statement of compliance with IFRS

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The Company's financial statements have been prepared in accordance with IFRS as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the Group and Company are set out below.

Adoption of standards and interpretations

As at the date of authorisation of these financial statements, there were Standards and Interpretations that were in issue but are not yet effective and have not been applied in these financial statements. The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the group or company, except for additional disclosures when the relevant Standards come into effect.

Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with those parts of the Companies Act 1985 applicable to companies preparing their accounts under IFRS.

These financial statements are presented in Sterling since that is the currency in which the majority of the Company's transactions are denominated. The measurement basis used in the preparation of the financial statements is historical cost, except for financial instruments, which are measured at fair value.

Basis of consolidation

Where the Company has the power, either directly or indirectly, to govern the financial and operating policies of another entity or business so as to obtain benefits from its activities, it is classified as a subsidiary. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intercompany transactions and balances between Group companies are therefore eliminated in full.

Business combinations and goodwill

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

Notes forming part of the financial statements for the year ended 30 June 2008

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised to the extent that the right to consideration is obtained in exchange for performance. Payment received in advance of performance is deferred on the balance sheet as a liability and released as services are performed or products are exchanged as per the agreement with the customer.

Revenue derived from the license royalties are recognised on notification of payment by the licensee. Revenue derived from the sale of manufactured products and recognised when delivered to the customer in accordance with the specific supply contract terms.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign currencies

Transactions in currencies other than Sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated foreign currencies are retranslated at the rates prevailing on the balance sheet date. Gains and losses arising on retranslation are included in the income statement for the period.

On consolidation, the results of overseas operations are translated into sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of the overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the balance sheet date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised directly in equity (the "foreign exchange reserve").

Taxation

The tax expense represents the sum of the current tax and deferred tax.

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

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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 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 goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit.

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

Internally-generated Intangible Assets - Research and Development Expenditure

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Notes forming part of the financial statements for the year ended 30 June 2008

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. The amortisation expense is included within the administrative expenses in the consolidated income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the consolidated income statement as incurred.

Externally acquired intangible assets

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

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

The significant intangibles recognised by the Group, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Intellectual property	Patent life (20 years)	Estimated royalty stream if the rights were to be licensed
Licenses	10 years	Estimated discounted cash flow

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If there is such indication then an estimate of the asset's recoverable amount is performed and compared to the carrying amount.

Recoverable amount is the higher of 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. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost and subsequently at depreciated cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognised within provisions.

Depreciation is provided on all of property, plant and equipment to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Plant and equipment	-	15%-25% per annum straight line
Office equipment	-	20%-25% per annum straight line

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition,

Weighted average cost is used to determine the cost of ordinarily interchangeable items.

Notes forming part of the financial statements for the year ended 30 June 2008

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group has become a party to the contractual provisions of the instrument

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at bank and short term deposits with banks and similar financial institutions.

Trade and other receivables

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Trade and other payables

Trade and other payables are non interest bearing and are stated at their nominal value.

Equity instruments

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

Share-based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated income statement over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated income statement is charged with the fair value of goods and services received. Equity-settled share-based payments are measured at fair value at the date of grant except if the value of the service can be reliably established. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest.

Critical accounting estimates and judgements

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

Notes forming part of the financial statements for the year ended 30 June 2008

1 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of goodwill

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows - actual outcomes may vary. If the carrying amount exceeds the recoverable amount then an impairment is made.

Useful lives of intangible assets and property, plant and equipment

Intangible assets and property, plant and equipment are amortised or depreciated over their useful lives. Useful lives are based on the management's estimates of the period that the assets will generate revenue, which are based on judgement and experience and periodically reviewed for continued appropriateness. Changes to estimates can result in significant variations in the carrying value and amounts charged to the consolidated income statement in specific periods.

Share-based payments

The Group utilised an equity-settled share-based remuneration scheme for employees. Employee services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of grant, excluding the impact of any non-market vesting conditions. The fair value of share options are estimated by using Black-Scholes valuation method as at the date of grant. The assumptions used in the valuation are described in note 17 and include, among others, the expected volatility, expected life of the options and number of options expected to vest.

Warranty claims

The Group may offer warranties on its products. The Group estimates the amount and cost of future warranty claims for its sale to be 10% of the sales price. 10% accrued warranty provisions for product shipments are provided. Factors that impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs.

Identifying the acquirer in business combinations

IFRS 3 defines the acquirer in a business combination as being the entity that obtains control of the other combining entities and defines control as being held by the combining entity that has the power to govern the financial and operating policies of the other entity so as to obtain benefits from its activities. The Group considers all relevant facts and circumstances to determine which of the combining entities has control, including the voting rights of shareholders, composition of combined entities board and management.

Determination of fair values of intangible assets acquired in business combinations

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that would have been avoided as a result of the trademark or a patent being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the asset.

Income taxes

The Group is subject to income tax in several jurisdictions and significant judgement is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. The Group believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of such matters is different than the amounts recorded, the differences will impact income tax expense in the period in which such determination is made.

Deferred taxation

Deferred tax assets are recognised when it is judged more likely than not that they will be recovered.

Going Concern

The financial report for the year ended 30 June 2008 has been prepared on a going concern basis.

Notes forming part of the financial statements for the year ended 30 June 2008

2 SEGMENT REPORTING

For management purposes the Group is organised into 4 operating divisions: Corporate; Product Research, Development and Design; Product Manufacture, and; Sales. These divisions are the basis on which the Group reports its primary segment information. Secondary segment information is presented on a geographic basis. The primary segment information corresponds closely to geographical segments as operational segments reside in distinct locations of the United Kingdom, Australia and Asia.

For the year ended 30 June 2008	Corporate	Product R&D and Design	Product Manufacture	Sales	Unallocated or Eliminated	Total
Business segments	£	£	£	£	£	£
Revenue						
External sales	5,642	44,799	-	18,060	-	68,501
Total revenue from continuing operations	5,642	44,798	-	18,060	-	68,501
Result						
Segment result from continuing operations	(1,178,168)	(795,387)	(192,163)	(345,159)	-	(2,510,877)
Finance income						42,061
Loss before tax						(2,468,816)
Income tax expense						-
Loss for the period from continuing operations						<u>(2,468,816)</u>
<i>Other segment items included in the income statement are as follows:</i>						
Depreciation	3,409	55,133	78,469	34,530	-	171,541
Amortisation					245,800	245,800
Balance sheet						
Segment assets	3,468,816	16,406	37,267	32,426	(2,433,214)	1,121,701
Segment liabilities	(94,246)	(65,772)	(20,336)	(94,799)	-	(275,153)
Net assets	<u>3,374,570</u>	<u>(49,366)</u>	<u>16,931</u>	<u>(62,373)</u>	<u>(2,433,214)</u>	<u>846,548</u>

For the year ended 30 June 2008	United Kingdom	Australia	Asia	Unallocated	Total
Geographical segments	£	£	£	£	£
Revenue					
External sales	5,642	44,799	18,060	-	68,501
Total revenue from continuing operations	5,642	44,799	18,060	-	68,501
Result					
Segment result from continuing operations	(1,259,881)	(587,657)	(663,339)	-	(2,510,877)
Finance income					42,061
Loss before tax					(2,468,816)
Income tax expense					-
Loss for the period from continuing operations					<u>(2,468,816)</u>
Balance sheet					
Segment assets	3,468,816	16,406	69,693	(2,433,214)	1,121,701
Segment liabilities	(94,246)	(65,772)	(115,135)	-	(275,153)
Net assets	<u>3,374,570</u>	<u>(49,366)</u>	<u>(45,442)</u>	<u>(2,433,214)</u>	<u>846,548</u>

Inter-segment transfers are priced along the same lines as sales to external customers, except that an appropriate discount is applied to encourage use of group resources at a rate accepted to local tax authorities.

Notes forming part of the financial statements for the year ended 30 June 2008

2 SEGMENT REPORTING (CONTINUED)

For the period ended 30 June 2007	Corporate	Product	Product	Sales	Unallocated	Total
Business segments		R&D and	Manufacture		or	
		Design			Eliminated	
	£	£	£	£	£	£
Revenue						
External sales	-	17,971	-	-	-	17,971
Total revenue from continuing operations	-	17,971	-	-	-	17,971
Result						
Segment result from continuing operations	(1,079,804)	(1,258,405)	(62,272)	2,244	(197,822)	(2,596,059)
Finance income						38,278
Loss before tax						(2,557,781)
Income tax expense						(69,224)
Loss for the period from continuing operations						<u>(2,627,005)</u>
<i>Other segment items included in the income statement are as follows:</i>						
Depreciation	781	2,003	-	-	-	2,784
Amortisation	220,423	14,518	-	-	-	234,941
Balance sheet						
Segment assets	10,224,965	92,200	152,811	117,994	(1,453,713)	9,134,257
Segment liabilities	(1,418,232)	(594,632)	(49,792)	(81,530)	1,772,194	(371,992)
Net assets	<u>8,806,733</u>	<u>(502,432)</u>	<u>103,019</u>	<u>36,464</u>	<u>318,481</u>	<u>8,762,265</u>

For the period ended 30 June 2007	United	Australia	Asia	Unallocated	Total
Geographical segments	Kingdom				
	£	£	£	£	£
Revenue					
External sales	-	17,971	-	-	17,971
Total revenue from continuing operations	-	17,971	-	-	17,971
Result					
Segment result from continuing operations	(1,079,804)	(1,258,405)	(60,028)	(197,822)	(2,596,059)
Finance income					38,278
Loss before tax					(2,557,781)
Income tax expense					(69,224)
Loss for the period from continuing operations					<u>(2,627,005)</u>
Balance sheet					
Segment assets	10,224,965	92,200	270,805	(1,453,713)	9,134,257
Segment liabilities	(1,418,232)	(594,632)	(131,322)	1,772,194	(371,992)
Net assets	<u>8,806,733</u>	<u>(502,432)</u>	<u>139,483</u>	<u>318,481</u>	<u>8,762,265</u>

Inter-segment transfers are priced along the same lines as sales to external customers, except that an appropriate discount is applied to encourage use of group resources at a rate accepted to local tax authorities.

Notes forming part of the financial statements for the year ended 30 June 2008

3 CONSOLIDATED REVENUE	Year ended 30 June 2008	Period 2 March 2006 to 30 June 2007
	£	£
Revenue arises from:		
Sale of goods	18,703	-
Royalties	46,666	10,036
Other Income	3,132	7,935
	68,501	17,971

4 CONSOLIDATED LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

Directors fees	463,859	441,000
Salaries and wages	469,210	126,850
Consultancy costs	129,350	82,470
Audit fees	68,651	84,135
Other professional fees	77,151	22,555
Amortisation of intangible assets	245,800	234,941
Depreciation	171,541	2,784
Research and development	73,017	188,668
Net Equity settled share-based payments	45,558	1,019,302
Foreign exchange loss	8,314	(5,029)
Other expenses	556,169	410,733
	2,308,620	2,613,438

Amounts payable to BDO Stoy Hayward LLP and Chapman Davis LLP and their associates in respect of both audit and non-audit services:

Audit services - group statutory audit (prior year)	64,651	36,000
Other services - company statutory audits	-	25,000
Other services - tax review	-	6,000
Other services - interim audit review	2,500	-
Other services - interim audit review and CT advice	1,500	-

Amounts payable to previous auditors MRI Moores Rowland LLP and their associates in respect of both audit and non-audit services:

Other services - interim audit review	-	4,120
Due diligence on acquisition of Whise Acoustics Limited	-	9,232

Amounts payable to previous auditors of Whise Acoustics Limited, Leydin Freyer Corporate Pty Ltd:

Other services - interim audit review and CT advice	-	3,783
---	---	-------

	68,651	84,135
--	---------------	---------------

Notes forming part of the financial statements for the year ended 30 June 2008

5 STAFF COSTS and DIRECTORS REMUNERATION

	Consolidated	
	Year ended	Period
	30 June 2008	2 March 2006 to 30 June 2007
	£	£
The average number of employees (including executive directors) was :	65	19
Their aggregate remuneration comprised :		
Wages and salaries	951,489	508,898
Share-based payments	26,862	21,010
	978,351	529,908

Consolidated Directors' and Key Management emoluments for the year ending 30 June 2008

	Salary & fees	Bonus	Share-based payments	Total
	£	£	£	£
Vincent Fodera-resigned 7/7/2008	120,040	-	13,871	133,911
Sandy Barblett	28,575	-	1,936	30,511
Kiran Morzaria	11,500	-	3,871	15,371
David Lenigas – appointed 29/1/2008	-	-	3,871	3,871
Gregory Turnidge-resigned 29/1/2008	27,140	-	4,936	32,076
Craig Evans-resigned 29/1/2008	142,940	-	1,936	144,876
Blair Snowball-resigned 29/1/2008	66,164	-	12,000	78,164
Arie van der Broek- CEO appointed 15/9/2007	67,500	-	3,871	71,371
	463,859	-	46,292	510,151

Consolidated Directors' emoluments for the period ending 30 June 2007

	Salary & fees	Bonus	Share-based payments	Total
	£	£	£	£
Vincent Fodera	99,000	15,000	4,988	118,988
Sandy Barblett	33,000	15,000	2,721	50,721
Kiran Morzaria	1,500	-	-	1,500
Gregory Turnidge	19,500	10,000	2,721	32,221
Christopher Lambert	9,000	-	-	9,000
Craig Evans	121,000	15,000	5,443	141,443
Blair Snowball	88,000	15,000	4,988	107,988
	371,000	70,000	20,861	461,861

Notes forming part of the financial statements for the year ended 30 June 2008

6 CONSOLIDATED INCOME TAX EXPENSE

	Year ended 30 June 2008	Period 2 March 2006 to 30 June 2007
	£	£
Current tax expense UK corporation tax and income tax of overseas operations on profits for the period	-	69,224
Deferred tax expense Origination and reversal of temporary differences	-	-
Total income tax expense	-	69,224

The reasons for the difference between the actual tax charge for the period and the standard rate of corporation tax in the UK applied to profits for the year are as follows:

Loss for the period	(2,468,816)	(2,557,781)
Expected tax gain based on the standard rate of corporation tax in the UK of 30%	(728,301)	(767,334)
Expenses not deductible for tax purposes	22,055	57,804
Capital items expensed	-	(64,738)
Share based payments	8,017	7,936
Losses unutilised	84,749	574,238
Utilisation of previously unrecognised tax losses	-	261,318
Different tax rates applied in overseas jurisdictions	-	-
Total tax (gain) expense	(613,480)	69,224

Tax gain of £613,480 is not recognised as a deferred tax asset

The Group also has a potential deferred tax asset in respect of losses carried forward of £874,257. This has not been recognised due to uncertainty over the amount and timing of future taxable profits against which the asset could be recovered.

7 CONSOLIDATED FINANCE INCOME

	Year ended 30 June 2008	Period 2 March 2006 to 30 June 2007
	£	£
Interest on bank deposits	42,061	38,278

Notes forming part of the financial statements for the year ended 30 June 2008

8 LOSS PER SHARE

The calculation of the basic and diluted loss per share is based on the following data:

	Year ended 30 June 2008	Period ended 30 June 2007
	£	£
Loss		
Loss for the purposes of basic and diluted loss per share	(2,468,816)	(2,627,005)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	228,220,186	145,569,036
Basic and diluted loss per share	<u>1.08 pence</u>	<u>1.80 pence</u>

The diluted loss per share is equal to the basic loss per share because all of the 18,284,489 options (weighted average being 14,273,530 on issue) were considered not potentially dilutive. That is, all options have an exercise price far greater than the weighted average share price during the year (ie they are out-of-the-money) and therefore would not be advantageous for the holders to exercise those options.

9 CONSOLIDATED INTANGIBLE ASSETS

	Intellectual			Total
	Goodwill	Property	Licences	
	£	£	£	£
Balance at 1 July 2007	1,768,417	4,978,173	171,856	6,918,446
Additions	-	44,416	-	44,416
Balance at 30 June 2008	1,768,417	5,022,589	171,856	6,962,862
<i>Accumulated amortisation and impairment</i>				
Balance at 1 July 2007	-	223,484	11,457	234,941
Amortisation charge for the period	-	228,614	17,186	245,800
Impairment charge	1,768,417	3,770,491	143,213	5,682,121
Balance at 30 June 2008	1,768,417	4,222,589	171,856	6,162,862
<i>Net book value</i>				
Balance at 30 June 2008	-	800,000	-	800,000

Goodwill was acquired during the prior period through two separate business combinations. Intellectual property consists of acquired patents, for which amortisation commenced from the date of acquisition. All but three patents have an average remaining useful life of approximately 20 years.

Impairment Review

At 30 June 2008, the directors have carried out an impairment review and have subsequently written down the value of the Goodwill, Intellectual Property and the Licences by approximately £5.7 million (see Note 19). The directors are of the opinion that the carrying value is now stated at fair value.

Notes forming part of the financial statements for the year ended 30 June 2008

10 CONSOLIDATED PLANT AND EQUIPMENT

	Plant and equipment	Office equipment	Leasehold improvements	Total
	£	£	£	£
<i>Cost</i>				
Balance at 1 July 2007	68,319	3,223	-	71,542
Additions	51,284	34,747	26,141	112,172
Disposals	(4,417)	(6,664)	-	(11,081)
Balance at 30 June 2008	115,186	31,306	26,141	172,633
<i>Accumulated depreciation and impairment</i>				
Balance at 1 July 2007	2,197	587	-	2,784
Depreciation for the period	112,989	32,411	26,141	171,541
Disposals	-	(1,692)	-	(1,692)
Balance at 30 June 2008	115,186	31,306	26,141	172,633
<i>Net book value</i>				
Balance at 30 June 2008	-	-	-	-
<i>Cost</i>				
Balance at 2 March 2006	-	-	-	-
Additions	68,319	3,223	-	71,542
Balance at 30 June 2007	68,319	3,223	-	71,542
<i>Accumulated depreciation and impairment</i>				
Balance at 2 March 2006	-	-	-	-
Depreciation for the period	2,197	587	-	2,784
Balance at 30 June 2007	2,197	587	-	2,784
<i>Net book value</i>				
Balance at 30 June 2007	66,122	2,636	-	68,758

11 CONSOLIDATED TRADE AND OTHER RECEIVABLES

	30 June 2008	30 June 2007
	£	£
Current trade and other receivables		
Trade debtors	17,913	304
Prepayments	25,194	95,647
Tax receivable	-	141,692
Other debtors	6,481	22,493
	49,588	260,136

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

Notes forming part of the financial statements for the year ended 30 June 2008

12 COMPANY TRADE AND OTHER RECEIVABLES

	30 June 2008	30 June 2007
Current trade and other receivables	£	£
Prepayments	25,194	13,384
Other debtors	6,481	101,481
	31,675	114,865

13 CONSOLIDATED TRADE AND OTHER PAYABLES

	30 June 2008	30 June 2007
Current trade and other payables	£	£
Trade payables	69,699	117,583
Accruals	111,099	161,108
Deferred income	92,406	81,530
	273,204	360,221

The directors consider that the carrying amount of trade payables approximates to their fair value.

14 COMPANY TRADE AND OTHER PAYABLES

	30 June 2008	30 June 2007
Current trade and other payables	£	£
Trade payables	7,781	46,366
Accruals	85,534	139,684
	93,315	186,050

15 FINANCIAL INSTRUMENTS - RISK MANAGEMENT

The Group is exposed through its operations to one or more of the following financial risks:

- Fair value or cash flow interest rate risk
- Foreign currency risk
- Liquidity risk
- Credit risk

Policy for managing these risks is set by the Board following recommendations from the Finance Director. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre. The policy for each of the above risks is described in more detail below.

Fair value and cash flow interest rate risk

Currently the Group does not have external borrowings. However, the Group has a policy of holding debt at a floating rate. The directors will revisit the appropriateness of this policy should the Group's operations change in size or nature. Operations are not permitted to borrow long-term from external sources locally.

Foreign currency risk

Foreign exchange risk arises because the Group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the Group companies are operating. The Group's net assets are exposed to currency risk giving rise to gains or losses on retranslation into sterling. Only in exceptional circumstances will the Group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in volatility in consolidated net assets warrants the cash flow risk created from such hedging techniques.

Notes forming part of the financial statements for the year ended 30 June 2008

15 FINANCIAL INSTRUMENTS - RISK MANAGEMENT continued

Foreign exchange risk also arises when individual Group operations enter into transactions denominated in a currency other than their functional currency. It is Group policy that where the risk to the Group is considered significant, Group treasury will enter into a forward contract with a reputable bank.

Liquidity risk

The liquidity risk of each Group entity is managed centrally by the Group treasury function. Each operation has a facility with Group treasury, the amount of the facility being based on budgets. The budgets are set locally and agreed by the board annually in advance, enabling the Group's cash requirements to be anticipated. Where facilities of Group entities need to be increased, approval must be sought from the Group finance director. Where the amount of the facility is above a certain level agreement of the board is needed.

All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the Group's forecast cash requirements.

Credit risk

The Group is mainly exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings are taken into account by local business practices.

The Group does not enter into complex derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

16 SHARE CAPITAL

	Consolidated and Company		Consolidated and Company	
	Year ended		Year ended	
	30 June 2008		30 June 2007	
	Number	£	Number	£
Authorised:				
Ordinary shares of £0.007 each	1,000,000,000	7,000,000	1,000,000,000	7,000,000
Issued and Fully Paid:				
At the beginning of the period	224,869,614	1,574,087	342,761,601	342,762
Consolidation of share capital	-	-	(293,795,658)	-
Issued ordinary shares of £0.007 each	1,731,645	12,122	-	-
Issued ordinary shares of £0.007 each	1,623,375	11,364	175,903,671	1,231,325
At the end of the period	228,224,634	1,597,573	224,869,614	1,574,087

At the beginning and the end of the period there were no shares issued that were not fully paid.

The following share capital was issued in the period to 30 June 2008;

(1) On 1 July 2007, 1,731,645 shares in Immersion Technology International Limited (representing 0.97% of its issued share capital), were issued to two shareholders who, as described in the Company's Admission Document (12 April 2007) did not waive their rights to compensation shares under the Whise Acoustics Share Purchase Agreement and thus became entitled to the shares on this date. On 11 December 2007 the Group negotiated the purchase of the minority interest by issuing one Immersion Technologies International plc share in exchange for each Immersion Technology International Limited share.

(2) On 6 May 2008 the Company issued 1,623,375 ordinary shares at £0.0154 per share in lieu of cash settlements to current and former directors.

Notes forming part of the financial statements for the year ended 30 June 2008

17 SHARE-BASED PAYMENTS

During the period the Company issued options to key management and employees

	Year ended 30 June 2008		Period ended 30 June 2007	
	Weighted average exercise price	Number	Weighted average exercise price	Number
Outstanding at the beginning of the period	£0.13	13,484,489	£0.21	734,489
Granted during the year	£0.0154	17,550,000	£0.125	12,750,000
Forfeited during the year				
Cancelled during the year	£0.125	(12,750,000)	-	-
Exercised during the year	-	-	-	-
Lapsed during the year	-	-	-	-
Outstanding at the end of the year	£0.0232	18,284,489	£0.13	13,484,489

The exercise price of options outstanding at the end of the period ranged between 21p and 1.54p and their weighted average contractual life was 9.8 years.

The weighted average fair value of each option granted during the year was 0.93p.

The Group used the Black-Scholes model to determine the value of the options and the inputs were as follows:

	Year ended 30 June 2008	Period ended 30 June 2007
Weighted average share price	£0.015	£0.051
Weighted average exercise price	£0.232	£0.125
Expected volatility	54%	30%
Expected life	5 years	5 years
Risk free rate	5.00%	5.00%
Expected dividends	£nil	£nil

Expected volatility was determined by using the volatility rate used by listed companies in similar industries and those companies with similar sizes.

On 6 May 2008 Immersion Technology International Limited also issued 1,623,375 shares as compensation payment to a Director and former Directors. The total share-based payment charge for the compensations shares is £25,000, which was valued at the date grant based on a valuation of 1.54 pence per share.

The total share-based payment expense in the period for the Group was £52,176, of which £27,176 pertained to new options to employees and directors which were in relation to options that were issued last year and cancelled and reissued. The cancellation of the charge for previously issued share options was £6,618, and £25,000 of compensation shares as mentioned above, resulting in a net charge of £45,558 in the income statement.

Notes forming part of the financial statements for the year ended 30 June 2008

18 INVESTMENT IN SUBSIDIARIES

	30 June 2008	30 June 2007
	£	£
As at 1 July	18,683,895	-
Additions during the year	548,119	18,683,895
Write-down of investment	(16,798,801)	-
At 30 June	<u>2,433,213</u>	<u>18,683,895</u>

The subsidiaries of Immersion Technologies International plc, all of which have been included in these consolidated financial statements, are as follows:

Name	Country of incorporation	Proportion of ownership interest
Immersion Technologies UK Limited	UK	100%
Immersion Technology Property Limited	UK	100%
Immersion Technology International Limited	UK	100%
Immersion Technologies (Singapore) Pte Limited	Singapore	100%
Immersion Technology (Nanjing) Co. Limited	China	100%
Immersion Technologies Australia Pty Limited	Australia	100%
Whise Acoustics Limited	Australia	100%
Whise Technologies Pty Limited	Australia	100%

19. IMPAIRMENT REVIEW

The directors undertook an impairment review of the Group's assets as at 30 June 2008 in view of subsequent events to this date regarding the closure of the operations in Singapore and China. The format of the review was by assessing the carrying value of assets as at 30 June 2008 by country and sector of origin. The analysis and resultant impairment charges were considered as follows:

Category	Net Costs capitalised to 30 June 2008 £	Impairment charge £	Net costs carried forward £
GROUP			
<i>Intangible assets</i>			
Goodwill	1,768,417	(1,768,417)	-
Intellectual property	4,570,491	(3,770,491)	800,000
Licences	143,213	(143,213)	-
Total	<u>6,482,121</u>	<u>(5,682,121)</u>	<u>800,000</u>
<i>Tangible assets</i>			
Plant and equipment	103,757	(103,757)	-
Office equipment	23,386	(23,386)	-
Leasehold improvements	17,681	(17,681)	-
Total	<u>144,824</u>	<u>(144,824)</u>	<u>-</u>
COMPANY			
Investment in subsidiaries	19,232,014	(16,798,801)	2,433,213

Notes forming part of the financial statements for the year ended 30 June 2008

20 GROUP RELATED PARTY TRANSACTIONS

Transactions between the parent and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below. Details of directors remuneration, being the only key personnel, are given in note 5.

Directors transactions

During the period, the Group incurred rent payable to ED Evans Holdings Pty Limited, a company owned by ED Evans the father of Craig Evans a former director (resigned 29 January 2008). The total paid for the year was £ 20,395.

Remuneration of Key Management Personnel

The remuneration of the directors, and other key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS24 Related party Disclosures.

	2008	2007
	£	£
Short-term employee benefits	463,859	441,000
Share-based payments	25,000	20,861
	488,859	461,861

21 COMPANY RELATED PARTY TRANSACTIONS

During the period the Company made loans to the following subsidiaries. The loans provide necessary funds for the subsidiaries to invest in setting up operations. The Company will continue to fund the subsidiaries, in this way, through the set up phase. The Directors believe the loans are fully recoverable but do not expect to make repayment calls within the next reporting period, however these loans are repayable on demand:

	As at 30 June 2008	As at 30 June 2007
	£	£
Immersion Technology International Limited	-	627,482
Immersion Technologies (Singapore) Pte Limited	18,933	-
Immersion Technologies Australia Pty Limited	1,076,199	136,206
	1,095,132	763,688

During the period the Company entered into transactions which resulted in loans payable to the following subsidiaries:

	As at 30 June 2008	As at 30 June 2007
	£	£
Immersion Technology International Limited	209,347	466,469
Immersion Technology Property Limited	100	100
Immersion Technologies UK Limited	100	100
	209,547	466,669
Net amounts due from subsidiaries	885,585	297,019

Notes forming part of the financial statements for the year ended 30 June 2008

22 ULTIMATE CONTROLLING PARTY

In the opinion of the directors there is no controlling party.

23 OPERATING LEASES

The Group leases all of its properties. The terms of property leases vary from country to country, although the majority are tenant repairing with rent reviews every 3 years and many have break clauses.

The total future of minimum lease payments are due as follows:

	Year ended 30 June 2008	Period ended 30 June 2007
	£	£
Not later than one year	37,204	64,456
Later than one year and not later than five years	-	108,889
Later than five years	-	-
	<u>37,204</u>	<u>173,345</u>

24 RETIREMENT BENEFIT SCHEME

The Group does not operate either a defined contribution or defined benefit retirement scheme.

25 COMMITMENTS

The Company has a commitment to make an equity investment of US\$1,500,000 into its Chinese subsidiary, Immersion Technology (Nanjing) Co. Limited, by the end of April 2009. This commitment is required by rules for establishing a Foreign Controlled Company in Nanjing, China. If the Company ceases to require a subsidiary in Nanjing prior to April 2009 then it does not have an obligation to complete the investment. As at the date of publishing the financial statements the Company has invested US\$1,300,000 (US\$300,000 as at 30 June 2007) and therefore is expected to have a further commitment of US\$200,000 to be made up to April 2009.

The Company is in the process of filing action against Nakamichi Corporation for breach of contract in failing to purchase its manufactured goods for which the Nanjin facility was set up. The financial cost attributable to this action, can not be estimated at this time.

26 POST BALANCE SHEET EVENTS

On 7 July 2008, Mr Vincent Fodera resigned as a director of the Company.

On 22 July 2008 the Company placed 18,500,000 ordinary shares of 0.7p each in the capital of the Company at a price of 1p per ordinary share ("Placing Shares") with certain investors (the "Placing") rising £185,000. Pursuant to the Placing, participants have additionally been granted one warrant to subscribe for an additional ordinary share in Immersion Technologies for every two new ordinary shares subscribed in the Placing. These warrants are exercisable at 1.5p per share for a period of five years from the date of admission of the Placing Shares to trading on AIM.

On 18 August 2008, the Company placed 17,500,000 ordinary shares of 0.7p each in the capital of the Company at a price of 1p per ordinary share raising £175,000. Pursuant to the Placing, participants have additionally been granted one warrant to subscribe for an additional ordinary share in Immersion Technologies for every two new ordinary shares subscribed in the Placing. These warrants are exercisable at 1.5p per share for a period of five years from the date of admission of the Placing Shares to trading on AIM.

The Company has also issued a further 1,100,000 ordinary shares of 0.7p each, in lieu of fees related to the Placing (the "Fee Shares"). The recipients of the Fee Shares have been granted Warrants on the same basis as the participants in the Placing, as described above.

27 Profit and loss account of the parent company

As permitted by section 230 of the Companies Act 1985, the profit and loss account of the parent company has not been separately presented in these accounts. The parent company loss for the year was £917,748 (2007:loss £274,985).

Notes forming part of the financial statements for the year ended 30 June 2008

Corporate Information

DIRECTORS

David Lenigas – Non Executive Chairman
Kiran Morzaria – Executive Director
Sandy Barblett – Non Executive Director

COMPANY SECRETARY

John Bottomley
30 Farringdon Street
London
EC4A 4HJ

NOMINATED ADVISOR

Beaumont Cornish Limited
2nd Floor, Bowman House, 29 Wilson Street
London
EC2M 2SJ

AUDITORS

Chapman Davis
3 Chapel Court
London
SE1 1HH

PUBLIC RELATIONS

Pelhams Public Relations Limited
No 1 Cornhill
London
EC3V 3ND

REGISTERED OFFICE

One America Square
Crosswall
London
EC3N 2SG

BROKER

St Helen's Capital plc
15 St Helen's Place
London
EC3A 6DE

SOLICITORS

Wedlake Bell LLP
52 Bedford Row
London
WC1R 4LR

REGISTRARS

Share Registrars Limited
Craven House, West Street
Farnham
Surrey
GU9 7BR