Infoserve Group plc

Annual report and financial statements

Registered number 05750143

Year ended 31 March 2010

Contents

Officers and Professional Advisers

The Board of Directors:	J H Newman (Non Executive Chairman – Resigned 1 May 2010) S M Barnes (Executive Chairman – Appointed 1 May 2010) D R Hood (Senior Non Executive Director) A R Thirkill (Non Executive Director) D I J Oliver (Operations Director) J P Simpson (Finance Director – Appointed 14 October 2009) M A Riley (Sales Director)
Company Secretary:	M J Deakin
Registered Office:	Infoserve Group plc South Side Aviation Leeds Bradford International Airport Leeds LS19 7UG
Bankers:	National Westminster Bank plc Leeds City Office 8 Park Row Leeds LS1 5HD
	Barclays Bank plc 2nd Floor 1 Park Row Leeds BX3 2BB
Legal Advisers:	Cobbetts LLP 58 Mosley Street Manchester M2 3HZ
Auditors:	KPMG Audit Plc 1 The Embankment Neville Street Leeds LS1 4DW
Broker and Nominated Adviser:	W H Ireland Limited 11 St. James's Square Manchester M2 6WH
Registrars:	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen West Midlands B63 3DA

Executive Chairman's Statement and Financial Review

Infoserve Group plc is an e-marketing company, specialising in local search. The Company helps businesses, particularly SMEs, to maximise their performance through online marketing.

We are pleased to report another year of good progress, both financially and commercially, with the Group achieving profitability for the first time in Infoserve's history.

	2010	2009
	£000	£000
		Restated
Revenue	**6,119**	5,495
Cost of sales	**(3,836)**	(3,959)
Gross profit	**2,283**	1,536
Administrative expenses	**(2,184)**	(2,448)
Operating profit/(loss)	**99**	(912)
Financial income	**7**	3
Financial expenses	**(100)**	(183)
Net financing expense	**(93)**	(180)
Profit/(loss) before tax	**6**	(1,092)

Revenue

Revenue for the year has increased by 11% and the performance per sales executive increased from £54,800 to £62,775, a rise of 15% on last year. The 11% growth in sales compares to 4% growth in internet advertising in 2009 (according to the Internet Advertising Bureau).

Margins

Gross margins have improved from 28% to 37% during the financial year, reflecting the increased sales productivity and streamlining of the sales force.

Results

Despite increased sales, cost control remains tight, and in addition to increased margins, overheads were £0.3 million lower than the prior year. As a result EBITDA, EBIT and PBT were all positive for the first time in the Group's history with profit before tax £1.1 million better than in the prior year.

Cash flow

Overall cash outflow in the year was just £47,000 down from £169,000 in the prior year. As a result of the profits generated, and a £200,000 drawdown on the new long term loan facility from Mr D R Hood, the Group has reduced trade and other payables by £560,000 (includes £18,000 of non-cash movements).

Going concern

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Executive Chairman's Statement and Financial Review *(continued)*

Market Developments

- Online advertising continues to grow despite the recession, increasing 4.2% in 2009 over the prior year. This growth is mainly driven by migration from more traditional media.
- In H1 2009 The Internet Advertising Bureau confirmed that the internet has now overtaken TV advertising to become the UK's single biggest advertising medium.
- Paid-for search accounted for 60.7% of all online advertising in 2009 and grew by 9.5%.
- Online display and classified were down 4.4% and 5.3% on the prior year respectively showing that even online is not immune from the current economic climate.
- 60% of all online searches appear to be local in nature.
- 90% of household consumer spend on goods and services takes place within 20 miles of where individual consumers live or work.
- Figures from searchenginewatch show that online searches have grown in length by 10% over the last 2 years as people become more specific in their searches.
- The combination of the growing sophistication of search engines and more specific user searches are driving more searches to a local outcome, as evidenced by the increasing prominence of Google maps.

Business developments

The market is beginning to mature with numerous small providers purporting to offer the "same thing for less". The Group has updated and repackaged many of its products and the primary focus of the entire product group is to create products that continue to deliver measurable and quantifiable business leads to our customers. This in turn gives us the opportunity to offer real return on investment (ROI) to customers, thereby maintaining our market USP.

The Group's exclusive partnership with Yahoo! continues to offer a point of difference from all competitors and Infoserve will continue to use this unique relationship over the next 12 months to offer its SME customers prominent positions on the Yahoo! search engine.

On 10 May 2010 the Company announced that it had entered into a joint venture agreement with Iliffe News and Media Limited ("INML"), the media arm of Yattendon Investment Trust with interests in local media including newspaper publishing and television.

Under the agreement, a joint venture company ("2i Local") will offer SMEs the opportunity to purchase a combined internet and print advertising package. This will give businesses guaranteed exposure to their target market through online local search and local newspaper coverage. Infoserve and INML will each own 50% of the issued share capital of 2i Local.

Change in accounting policies

The Board has changed the method by which the Group recognises revenue under IAS18, a change which the Board believes to be a more appropriate recognition of revenue as the service is delivered. Revenue for directory listings are now spread evenly over the life of the listings, dispensing with any weighting towards the start of the listing. The effect on current and prior years has been clearly disclosed in notes 1 and 26.

Deferred tax asset

The Board has prepared appropriate forecasts and continues to believe that the Group will be profitable in the future and therefore utilise the considerable tax losses built up over the last few years. It has accordingly carried forward a proportion of this recovery as a deferred tax asset in the statement of financial position.

Executive Chairman's Statement and Financial Review *(continued)*

Dividend

The Group has insufficient distributable reserves to pay a dividend, therefore the directors do not recommend the payment of a dividend *(2009 : £nil)*.

Board changes

In October 2009, Jonathan Simpson was appointed to the Board as Finance Director following his appointment as interim finance director in June 2009. Jonathan is the former Finance Director of Ultralase, a leading UK laser eye surgery provider.

In May 2010, we announced that James Newman, our Chairman, was leaving the Group to concentrate on his other interests. The Board would like to thank James for his very valuable contribution to the development of the Group, especially during some difficult trading periods, and wish him well for the future. Steve Barnes has taken up the position of Executive Chairman. The Board believe that it is appropriate for the two roles to be combined in the short to medium term given the size of the company.

Outlook and summary

The macro economic difficulties have affected most businesses in the UK, and we have seen marked evidence of a substantial downturn in marketing expenditure in certain of our customer categories. While online advertising, and the Group's revenues continue to grow, in the medium term the wider economy is unlikely to provide stimulus and impetus on its own. We believe that initiatives such as our joint venture that bring together a range of media will continue to provide the best opportunity for the Group as customers will seek to purchase a number of services from a single trusted source. We will continue to focus our efforts on delivering not only prominent online search positions to our customers, but also measurable, transparent and quantifiable ROI offerings.

Google and others pioneered pay per performance marketing and SME's now seek a simple model that covers a range of products and services from a trusted supplier.

We cannot ignore the difficult paradigm shift faced by UK businesses, and our customer base is of course affected by the difficult trading conditions. We will need to remain flexible in switching focus away from those business categories most affected by the downturn in order to concentrate resources on growth areas. Once again, forecasters predict that online paid-for local search will continue to grow and lead online advertising and marketing, but the Group expects that this growth will be at lower rates than in previous years and that we will have to work hard to continue the business and profitability growth experienced in each of the last four years.

Stephen M Barnes
Executive Chairman
21 June 2010

Jonathan P Simpson
Finance Director
21 June 2010

Directors' Report

The directors present their Annual report and financial statements for the year ended 31 March 2010.

Activities and review of the business

The Group's principal activity is the provision of e-marketing services, specialising in local search.

The Group has achieved revenues of £6,119,161 *(2009 restated: £5,495,325)*, an operating profit of £99,014 *(2009 restated operating loss: £911,544)* and a profit before tax of £5,927 *(2009 restated loss before tax: £1,091,865).*

Further details are contained in the Executive Chairman's statement and financial review.

Financial key performance indicators (KPIs)

The following KPIs are part of the tools used by management to monitor the business performance:

	2010	2009 (restated)	
Gross profit margin	**37.31%**	27.95%	Gross profit/turnover
Operating profit margin	**1.62%**	(16.59)%	Operating profit/(loss)/turnover
Creditor days	**51 days**	54 days	Trade creditors/credit purchases
Performance per sales executive	**£62,775**	£54,800	Total telesales revenue/average number of telesales executives

Proposed dividend

The directors do not recommend the payment of a dividend *(2009: £nil)*.

Directors and their interests

Details of the membership of the Board and directors' interests in the Company's ordinary share capital at the year end are disclosed below:

	Beneficial Holdings	
	At 31 March 2010	At 31 March 2009
	No.	No.
J H Newman	**55,267**	55,267
S M Barnes	**1,665,340**	1,665,340
D R Hood	**48,937,707**	8,937,707
A R Thirkill	**67,417**	67,417
D I J Oliver	**1,823,344**	1,844,760
M A Riley	**-**	-
J P Simpson	**-**	-

	Non-Beneficial Holdings	
	At 31 March 2010	At 31 March 2009
	No.	No.
J H Newman	**26,125**	26,125
S M Barnes	**43,741**	43,741

Directors' Report *(continued)*

Directors and their interests *(continued)*

Details of the membership of the Board and directors' interests in the Company's preference share capital are disclosed below:

	Beneficial Holdings	
	At 31 March 2010 No.	At 31 March 2009 No.
D R Hood	**100,000**	100,000

There have been no changes in the above interests between 31 March 2010 and the date of this report. All changes to directors in the year are shown on page 1.

The options granted and outstanding as at 31 March 2010 are shown below:

	Class of share	**Options outstanding at 31 March 2010**	**Options outstanding at 31 March 2009**	**Exercise price (pence)**	**Vesting year**
Directors					
J H Newman	Ordinary 5p	9,000	9,000	25.0	2009 – 2016
A R Thirkill	Ordinary 5p	3,000	3,000	25.0	2009 – 2016
J H Newman	Ordinary 5p	150,000	150,000	28.5	2011 – 2018
A R Thirkill	Ordinary 5p	120,000	120,000	28.5	2011 – 2018
M A Riley	Ordinary 5p	150,000	150,000	24.5	2011 – 2018

Options are exercisable no earlier than three years following the date of grant, and no later than ten years following the date of grant.

During the year the Group's share price was recorded between 5.75p and 18.5p.

Certain directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report. The Company provided qualifying third party indemnity provisions to certain directors of associated companies during the financial year and at the date of this report.

Report on remuneration

The remuneration committee comprises D R Hood (Chairman), S M Barnes and A R Thirkill. The committee reviews the terms of employment and total remuneration of the executive directors at least twice a year to ensure that the Company can attract, retain and motivate directors capable of delivering the Company's objectives. Full details of directors' remuneration are given in note 5 to the financial statements.

Executive director packages comprise a basic salary and other benefits. The committee has regard to rates of pay for similar positions in comparable companies as well as internal factors such as performance. The objective of the Company's remuneration policy is to ensure that members of the executive management are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company. The executive directors are eligible for share options under the Company's share option scheme. The exercise of options granted under these share option schemes is not dependent on performance criteria.

Substantial shareholdings

Mr D R Hood owns 82.84% of the ordinary share capital of the Company. Mr D I J Oliver owns 3.09% of the ordinary share capital of the Company. The directors are not aware of any other shareholdings representing 3% or more of the issued share capital of the Company at the date of this report.

Directors' Report *(continued)*

Principal risks and uncertainties

The liquidity risk of the Infoserve Group is managed centrally. Liquidity risk arises from the Group's management of working capital and the finance charges and principal payments on debt financing. It is the risk that the Group will have difficulty in meeting its financial obligations as they fall due. The Group currently has sufficient liquid resources to meet the liquidity requirements of the business and its future plans.

The Group finances its operations through equity and other borrowings. The interest calculated on other borrowings is at base rate plus 2.5%, with the exception of £200,000, which is at 10%. The interest calculated on the £250,000 loan repaid during the year was at base plus 5%. The Group's exposure to interest rate risk arises from fluctuations in base rate. The Group reviews borrowings at Board meetings.

The Group monitors its fixed cost base and utilises the KPIs as illustrated on page 5 to assess its business performance.

Further details are contained in note 23.

The Group's operations expose it to a variety of financial risks that include the effects of changes in seasonal and economic patterns and trends which may affect the markets for the services the Group offers. The Group has in place a risk management programme that seeks to limit the adverse effects on the financial performance of the Group. Other risks include requirements for further funds, management of growth, dependence on senior management and employees, recruitment risk, technology risk and partner risk and are considered below.

Requirements for further funds

There may be a requirement for the Group to raise further funds in the future in order to fully exploit opportunities available and to fund further expansion. However the Group now has sufficient funds for some growth opportunities.

Management of growth

The ability of the Group to implement its strategy in a rapidly evolving market requires effective planning and management control systems. The Board anticipates that further expansion will be required to respond to market opportunities and the potential growth in its industry. The Group's growth plans may place a significant strain on the Group's management, operational, financial and personnel resources.

Therefore, the Group's further growth and prospects will depend on its ability to manage this growth and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls.

Dependence on senior management and employees

As with any company, the Group's results are dependent upon the performance and continued services of the Group's senior management and other key personnel.

Recruitment and retention

The Group's business is dependent on achieving sales through telephone sales personnel. Businesses that employ telephone sales personnel can experience a high rate of turnover of such employees, which can increase the costs of recruitment and training and divert management resources from other functions in the operation of the Group.

Directors' Report *(continued)*

Principal risks and uncertainties *(continued)*

Technology

The Group's business is dependent on various technologies it utilises in the creation and operation of its websites, the search facilities provided to its partners, and the creation and maintenance of its data, as well as in other areas of its operations.

The Group obtains the data for its business directories from various third party suppliers, although the Group then maintains and updates this data through its own research and data collection minimising any risk of data loss.

Partners

The Group's agreements with its partners are of a fixed term nature and therefore pose a risk should the Group not be able to renew these agreements as they expire.

Employee relations

The Group supports the employment of disabled people wherever possible, both in recruitment and by retention of those who become disabled during their employment.

Appropriate steps are taken to inform and consult employees regarding matters affecting them and the Group.

The Group's policy regarding health and safety is to ensure that, as far is practical there is a working environment which will minimise the risk to health and safety of employees and those persons who are authorised to be on its premises.

Policy and practice on payment of creditors

It is the Group's policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based upon the timely receipt of an accurate invoice.

At the year end there were 51 days *(2009: 54 days)* purchases in trade payables, calculated in accordance with the requirements set down in the Companies Act 2006. This represents the ratio, expressed in days, between the amounts invoiced to the Group by its suppliers in the year and the amounts due at the year end within trade creditors.

Political and charitable contributions

Neither the Company nor its subsidiary made any political donations or incurred any political expenditure during the year. Charitable donations made was £nil *(2009: £196)*.

Audit Committee

The Audit Committee is appointed by the Board and must comprise a minimum of two members, including one non executive director. During the year, J H Newman (Chairman), D R Hood and A R Thirkill served on the Audit Committee. The committee meets not less than twice a year. Since the year end A R Thirkill has taken over as Chairman with S M Barnes also joining the Audit Committee.

The Audit Committee may examine any matters relating to the financial affairs of the Group. This includes reviews of the annual accounts and announcements, internal control procedures, accounting policies, compliance with accounting standards, the appointment of external auditors, risk assessment and other such related functions as the Board may require.

Directors' Report *(continued)*

Disclosure of information to auditors

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Going concern

The financial statements have been prepared on a going concern basis, notwithstanding the net liabilities and net current liabilities, which the directors believe to be appropriate for the following reasons.

The Group meets its day to day working capital requirements through an overdraft. The terms of the overdraft are still being finalised with the bank, however under the Group's loan facility with David Hood a further £250,000, equivalent to the value of the overdraft, can be drawn down in the event that this overdraft facility is withdrawn. The Group continues to operate within this facility; April management accounts place the headroom at £233,000 and the Group has been regularly generating cash from trading activities.

During the year, the Group has agreed a restructuring of its loans. This has resulted in reducing capital and interest outstanding to Mr D R Hood to £1.85m from £3.57m, and a reduction in the amount due within one year to £0.04m from £3.28m. For further details see note 16. In addition, one of the Group's landlords, Amerdale LLP (of which Mr D R Hood is the majority partner) has agreed to a long term deferral of rent payments. Rent payments outstanding for part of 2009 total £223,000. Since November 2009, rent for each of the subsequent periods has been paid in full when due. Full details can be found in the related parties note 22.

As the Group has now reached breakeven and it has greater certainty of funding than in the prior year, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Michael J Deakin
Secretary

Infoserve Group plc
South Side Aviation
Leeds Bradford International Airport
Leeds
LS19 7UG

21 June 2010

Corporate Governance

Application of the principles of good governance

The rules relating to securities traded on AIM, a market operated by the London Stock Exchange, do not require AIM companies to report in accordance with the Combined Code appended to the London Stock Exchange Listing Rules. However, the Board believes in the principles of good corporate governance and is committed to applying the highest principles commensurate with the Company's size.

The Board

The Group is managed by a Board, consisting of an executive chairman, three executive members and two non-executive members, who retain responsibility for the formulation of corporate strategy, approval of acquisitions, divestments and major capital expenditure and treasury policy. The appointment of new directors is a matter reserved for the Board as a whole rather than for a separate nomination committee.

The Board meets regularly and has a schedule of matters specifically referred to it for decision. All directors have access to advice from the company secretary and training is available for directors as necessary.

The Board considers the non-executive directors to be independent.

Internal control

The directors have overall responsibility for ensuring that the Group maintains a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. The risk management process and systems of internal control are designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives. However, there are inherent limitations in any system of internal control and accordingly even the most effective system can only provide reasonable and not absolute assurance. The Board has reviewed the operation and effectiveness of the system of internal control in operation during the year.

The Board is also responsible for assessing and minimising all business risks, supported by Group personnel able to provide specific assistance in matters relating to regulatory compliance, health and safety, environment, quality systems and insurance cover for property and liability risks.

Monthly accounts, with commentary on current year performance compared with planned performance, together with key ratio analysis and working capital information, are prepared in accordance with Group accounting policies and principles. They are consolidated and reviewed by the Board in order to monitor overall performance and produce appropriate management intervention.

The Board monitors the funding requirements and banking facilities provided to the Group in addition to the management of investment and treasury procedures. Capital and significant investment expenditure is approved against performance criteria.

The Board confirms that it has established the procedures necessary to implement the guidance "Internal Control: Guidance for Directors on the Combined Code". The Board has considered the need for an internal audit function but has concluded that the size and complexity of the Group does not justify the expense at present. The need for an internal audit function will continue to be reviewed periodically.

Relations with shareholders

The Board attaches great importance to maintaining good relationships with shareholders. The Board regards the Annual General Meeting as an opportunity to communicate directly with investors, who are encouraged to participate.

Corporate Governance *(continued)*

Compliance

In May 2010, the Group combined the role of Chairman and Chief Executive. The Group took this decision in consultation with its major shareholder Mr D R Hood and in accepting the role Mr S M Barnes stepped back from some of his more operational duties and has delegated these to the other three executive directors. The move from three to two non-executive directors on the Board is not deemed to impede the independence of the Board at this stage of the Group’s development. Both non-executive directors sit on the remuneration and audit committees with the Executive Chairman and these committees meet quarterly. In the opinion of the directors, the Company has complied throughout the year with the provisions of Section 1 of the Combined Code.

The Company has complied fully with the requirements of provision C2.1 of the Code (review of effectiveness of internal control system) from the date of its flotation on AIM.

Going concern

The directors report, in connection with paragraph D1.3 of the Combined Code that, after making enquiries, they have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence. For this reason they continue to adopt the going concern basis in preparing the financial statements. Please refer to note 1 for further details.

Statement of directors' responsibilities in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG Audit Plc
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors' report to the members of Infoserve Group plc

We have audited the financial statements of Infoserve Group plc for the year ended 31 March 2010 set out on pages 15 to 53. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31 March 2010 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report to the members of Infoserve Group plc *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

A J Stone (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
1 The Embankment
Leeds
West Yorkshire
LS1 4DW

21 June 2010

Consolidated Statement of Comprehensive Income
For the year ended 31 March 2010

	Note	**2010 £000**	2009 £000 Restated
Revenue – continuing operations	*1,2*	**6,119**	5,495
Cost of sales		**(3,836)**	(3,959)
Gross profit		**2,283**	1,536
Administrative expenses		**(2,184)**	(2,448)
Operating profit/(loss) – continuing operations	*1,3*	**99**	(912)
Financial income	*6*	**7**	3
Financial expenses	*6*	**(100)**	(183)
Net financing expense		**(93)**	(180)
Profit/(loss) before tax		**6**	(1,092)
Taxation	*7*	**-**	-
Profit/(loss) for the year	*20*	**6**	(1,092)
Basic and diluted earnings/(loss) per share	*8*	**0.03p**	(5.72p)

The notes on pages 21 to 53 form part of these financial statements.

Statements of Financial Position
At 31 March 2010

	Note	**Group**		**Company**	
		2010	2009	**2010**	2009
		£000	£000	**£000**	£000
			Restated		
Non-current assets					
Property, plant and equipment	*10*	**177**	251	**-**	-
Intangible assets	*11*	**485**	534	**-**	-
Investment in subsidiary	*12*	**-**	-	**538**	520
Deferred tax assets	*13*	**838**	838	**90**	90
		1,500	1,623	**628**	610
Current assets					
Trade and other receivables	*14*	**267**	345	**4,899**	3,109
Cash and cash equivalents	*15*	**363**	410	**-**	-
		630	755	**4,899**	3,109
Total assets		**2,130**	2,378	**5,527**	3,719
Current liabilities					
Bank overdraft	*15*	**(250)**	(250)	**-**	-
Interest-bearing loans and borrowings	*16*	**(37)**	(3,278)	**-**	-
Trade and other payables	*17*	**(2,885)**	(3,568)	**(158)**	(300)
Provisions	*19*	**(80)**	(80)	**-**	-
		(3,252)	(7,176)	**(158)**	(300)
Non-current liabilities					
Interest-bearing loans and borrowings	*16*	**(1,816)**	(287)	**(100)**	(100)
Trade and other payables	*17*	**(143)**	(20)	**-**	-
		(1,959)	(307)	**(100)**	(100)
Total liabilities		**(5,211)**	(7,483)	**(258)**	(400)
Net (liabilities)/assets		**(3,081)**	(5,105)	**5,269**	3,319

Statements of Financial Position *(continued)*
At 31 March 2010

	Note	**Group** 2010 £000	2009 £000 Restated	**Company** 2010 £000	2009 £000
Equity attributable to equity holders of the parent					
Share capital	*20*	**2,954**	954	**2,954**	954
Share premium	*20*	**3,871**	3,871	**3,871**	3,871
Retained earnings	*20*	**(9,906)**	(9,930)	**(1,556)**	(1,506)
Total equity		**(3,081)**	(5,105)	**5,269**	3,319

These financial statements were approved by the Board of directors on 21 June 2010 and were signed on its behalf by:

Stephen M Barnes
Executive Chairman

Jonathan P Simpson
Finance Director

The notes on pages 21 to 53 form part of these financial statements.

Statement of Cash Flows
For the year ended 31 March 2010

	Note	Group		Company	
		2010	2009	**2010**	2009
		£000	£000	**£000**	£000
			Restated		
Cash flows from operating activities					
Profit/(loss) for the year		**6**	(1,092)	**(68)**	(849)
Adjustments for:					
Depreciation		**102**	151	**-**	-
Amortisation		**122**	174	**-**	-
Financial income		**(7)**	(3)	**-**	-
Financial expense		**100**	183	**-**	-
(Profit)/loss on sale of property, plant and equipment		**(21)**	10	**-**	-
Equity-settled share-based payment expenses		**18**	37	**-**	-
		320	(540)	**(68)**	(849)
Decrease/(increase) in trade and other receivables		**78**	(63)	**210**	617
(Decrease)/increase in trade and other payables		**(542)**	320	**(142)**	232
Change in deferred government grant		**(2)**	(1)	**-**	-
		(146)	(284)	**-**	-
Interest paid		**(7)**	(9)	**-**	-
Net cash from operating activities		**(153)**	(293)	**-**	-
Cash flows from investing activities					
Interest received	*6*	**7**	3	**-**	-
Acquisition of property, plant and equipment	*10*	**(28)**	(15)	**-**	-
Acquisition of other intangible assets	*11*	**(73)**	(114)	**-**	-
Net cash from investing activities		**(94)**	(126)	**-**	-
Cash flows from financing activities					
Advance of loans		**200**	250	**-**	-
Net cash from financing activities		**200**	250	**-**	-
Net decrease in cash and cash equivalents		**(47)**	(169)	**-**	-
Cash and cash equivalents at 1 April		**160**	329	**-**	-
Cash and cash equivalents at 31 March	*15*	**113**	160	**-**	-

The notes on 21 to 53 form part of these financial statements.

Consolidated and Company Statements of Changes in Equity
For the year ended 31 March 2010

Group

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2008 (restated refer note to 27)	954	3,871	(8,875)	(4,050)
Total comprehensive income for the year:				
Loss for the financial year attributable to equity shareholders of the Parent Company (restated)	-	-	(1,092)	(1,092)
Total comprehensive income for the year	-	-	(1,092)	(1,092)
Transactions with owners recorded directly in equity:				
Equity-settled share-based payment transactions	-	-	37	37
Total contributions by and distributions to owners	-	-	37	37
Balance at 31 March 2009 (restated)	954	3,871	(9,930)	(5,105)
Balance at 1 April 2009 (restated)	954	3,871	(9,930)	(5,105)
Total comprehensive income for the year:				
Profit for the financial year attributable to equity shareholders of the Parent Company	-	-	6	6
Total comprehensive income for the year	-	-	6	6
Transactions with owners recorded directly in equity:				
Equity-settled share-based payment transactions	-	-	18	18
Equity shares issued in the year	2,000	-	-	2,000
Total contributions by and distributions to owners	2,000	-	18	2,018
Balance at 31 March 2010	**2,954**	**3,871**	**(9,906)**	**(3,081)**

Further details regarding the prior year restatement are provided in note 1.

Consolidated and Company Statements of Changes in Equity *(continued)*
For the year ended 31 March 2010

Company

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 2008	954	3,871	(694)	4,131
Total comprehensive income for the year:				
Loss for the financial year attributable to equity shareholders of the Parent Company	-	-	(849)	(849)
Total comprehensive income for the year	-	-	(849)	(849)
Transactions with owners recorded directly in equity:				
Equity-settled share-based payment transactions	-	-	37	37
Total contributions by and distributions to owners	-	-	37	37
Balance at 31 March 2009	954	3,871	(1,506)	3,319
Balance at 1 April 2009	954	3,871	(1,506)	3,319
Total comprehensive income for the year:				
Profit for the financial year attributable to equity shareholders of the Parent Company	-	-	(68)	(68)
Total comprehensive income for the year	-	-	(68)	(68)
Transactions with owners recorded directly in equity:				
Equity-settled share-based payment transactions	-	-	18	18
Equity shares issued in the year	2,000	-	-	2,000
Total contributions by and distributions to owners	2,000	-	18	2,018
Balance at 31 March 2010	**2,954**	**3,871**	**(1,556)**	**5,269**

The notes on 21 to 53 form part of these financial statements.

Notes (forming part of the financial statements)

1 Accounting policies

Infoserve Group plc (the "Company") is a company domiciled in the UK. The address of the Company's registered office is South Side Aviation, Leeds Bradford International Airport, Leeds, LS19 7UG.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its Group.

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual statement of comprehensive income and related notes that form a part of these approved financial statements.

The Parent Company loss after tax in the year was £68,556 *(2009:£848,969)*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.

New IFRS and amendments to IAS and interpretations not applied

There are a number of new and updated standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. The following have not been adopted by the Group:

International Financial Reporting Standards		**Effective for accounting periods starting after**
IAS 39	Embedded derivatives (amendment)	30 June 2009
IFRS 1	First time adoption of IFRS (revised)	1 July 2009
IAS 27*	Consolidated and separate financial statements (amended)	1 July 2009
IAS 39	Financial instruments: Recognition and measurement: Eligible hedged items	1 July 2009
IFRS 3*	Business combinations (revised)	1 July 2009
Annual improvements	Annual improvements to IFRS 2009	Various dates effective from 1 July 2009
IFRS 2	Group cash-settled share-based payment transactions (amendment)	1 January 2010
IFRS 1	Additional exemptions for first time adopters (amendment)	1 January 2010

International Financial Reporting Interpretations Committee

IFRIC 9	Embedded derivatives (amendment)	30 June 2009
IFRIC 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC 18	Transfer of assets from customers	1 July 2009

* These standards and interpretations have been endorsed by the European Union

The application of these standards and interpretations are not anticipated to have a material effect on the Group's financial statements except for additional disclosure.

Notes *(continued)*

1 Accounting policies *(continued)*

Measurement convention

The financial statements are prepared on the historical cost basis, except for interest-bearing borrowings.

Basis of preparation

The financial statements have been prepared on a going concern basis, notwithstanding the net liabilities and net current liabilities, which the directors believe to be appropriate for the following reasons.

The Group meets its day to day working capital requirements through an overdraft. The terms of the overdraft are still being finalised with the bank, however under the Group's loan facility with David Hood a further £250,000, equivalent to the value of the overdraft, can be drawn down in the event that this overdraft facility is withdrawn. The Group continues to operate within this facility; April management accounts place the headroom at £233,000 and the Group has been regularly generating cash from trading activities.

During the year, the Group has agreed a restructuring of its loans. This has resulted in reducing capital and interest outstanding to Mr D R Hood to £1.85m from £3.57m, and a reduction in the amount due within one year to £0.04m from £3.28m. For further details see note 16. In addition, one of the Group's landlords, Amerdale LLP (of which Mr D R Hood is the majority partner) has agreed to a long term deferral of rent payments. Rent payments outstanding for part of 2009 total £223,000. Since November 2009, rent for each of the subsequent periods has been paid in full when due. Full details can be found in the related parties note 22.

As the Group has now reached breakeven and it has greater certainty of funding than in the prior year, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Functional currency

These consolidated financial statements are presented in sterling, which is the Company's functional currency. All financial information presented in sterling has been rounded to the nearest thousand.

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives are as follows:

- leasehold improvements — over the life of the lease
- office equipment — 20% per annum straight line
- computer equipment — 33.3% per annum straight line

Notes *(continued)*

1 Accounting policies *(continued)*

Intangible assets

Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends, has the technical ability and has sufficient resources to complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the statement of comprehensive income on a straight-line basis over the estimated useful life of the intangible asset. Other intangible assets are amortised from the date they are available for use. Intangible assets are systematically tested for impairment at each balance sheet date. The estimated useful lives are as follows:

- core data — continually updated and reviewed annually
- data refreshes — 1 year
- data management system — 3 years
- website development costs — 4 years

During the year the Group changed its presentation of amortisation costs, to show these costs as part of its cost of sales rather than as administrative expenses. The comparative figures have been aligned with this change in presentation. This adjustment had no impact on the results as reported in the prior year.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in equity securities

Investments in subsidiaries are carried at cost less impairment in the Parent Company financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Notes *(continued)*

1 Accounting policies *(continued)*

Impairment excluding deferred tax assets

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the statement of comprehensive income.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Calculation of recoverable amount

The recoverable amount of the Group's investments in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which their expenses are recognised. Grants that compensate the Group for the costs of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the statement of comprehensive income as incurred.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting.

The fair value of the amount payable to employees in respect of share appreciation rights, which are settled in cash, is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is re-measured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

The Group and Company took advantage of the option available in IFRS 1 to apply IFRS 2 only to equity instruments that were granted after 7 November 2002 and that had not vested by their transition date.

Notes *(continued)*

1 Accounting policies *(continued)*

Share-based payment transactions (continued)

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity. Amounts recharged to the subsidiary are recognised as a reduction in the cost of investment in subsidiary. If the amount recharged exceeds the increase in the cost of investment the excess is recognised as a dividend to the extent that it reflects post acquisition profits of the subsidiary. When the cost of investment in subsidiary has been reduced to nil, the excess is recognised as a dividend.

Where the Company's parent grants rights to its equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the Parent, the Group or the Company as the case may be account for these share-based payments as equity-settled.

Where the Company grants rights to its parent's equity instruments to the Group's or the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the Parent, the Group or the Company as the case may be account for these share-based payments as cash-settled.

Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax risk-free rate.

Provisions are made for onerous leases where property is vacant. A provision is recognised for the best estimate of the unavoidable lease payments reduced by the estimated sublease rentals that the Company reasonably expects to generate.

Revenue

Revenue represents the amounts derived from the provision of services during the year stated net of Value Added Tax. Revenue is recognised on a gross basis. This requires revenue to comprise the gross value of the transaction billed to the customer, after trade discounts, with any related expenditure charged as an operating cost.

Within the 'suite' of web based advertising products, Infoserve offers customers both one off advertising products and longer term advertising, whilst often sold in combination, these products require different accounting treatments.

Revenue includes income related to term advertising that is invoiced in advance at the inception of the agreement. It is the Group's policy to recognise the revenue evenly over the agreed term.

Revenue generated from the construction of websites is recognised once the work has been completed.

Segment reporting - An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Chief Operating Decision Maker ("CODM") to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available (see note 2).

Notes *(continued)*

1 Accounting policies *(continued)*

Change in revenue recognition accounting policy

The Group's policy was to recognise a fixed percentage of new customer sales of term advertising at the point of sale to reflect the cost of acquiring the customer and producing the advert. The balance was spread evenly over the agreed initial term. Renewal revenues were spread evenly over the term of the agreement.

Following a review, all term advertising revenue is recognised evenly over the agreed term, as this better matches the period over which the service is provided by Infoserve.

The change to the treatment of term advertising revenue has the following impact on the financial results of the Group:

	Year ended 31 March 2009			Year ended 31 March 2008		
	As reported	Adjustment	Restated	As reported	Adjustment	Restated
	£000	£000	£000	£000	£000	£000
Statement of comprehensive income						
Revenue	5,595	(100)	5,495	4,651	487	5,138
Loss/(profit) before tax	(992)	(100)	(1,092)	(2,890)	487	(2,403)
Loss/(profit) before tax	(992)	(100)	(1,092)	(2,945)	487	(2,458)
Earnings/(loss) per share (p)	(5.20)	(0.52)	(5.72)	(16.22)	2.68	(13.54)
Statement of financial position						
Current liabilities – trade and other payables	(3,050)	(518)	(3,568)	(2,825)	(418)	(3,243)
Net liabilities	(4,587)	(518)	(5,105)	(3,632)	(418)	(4,050)

	Year ended 31 March 2010		
	As reported	Impact on current year	Results under old revenue recognition policy
	£000	£000	£000
Statement of comprehensive income			
Revenue	6,119	(171)	5,948
Profit/(loss) before tax	6	(171)	(165)
Profit/(loss) after tax	6	(171)	(165)
Earnings/(loss) per share (p)	0.03	(0.73)	(0.70)
Statement of financial position			
Current liabilities – trade and other payables	(2,885)	328	(2,557)
Net liabilities	(3,081)	328	(2,753)

Refer to note 27 for the restated statement of financial position.

Notes *(continued)*

1 Accounting policies *(continued)*

Expenses

Operating lease payments

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

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and finance leases, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the statement of comprehensive income (see foreign currency accounting policy). Financing income comprise interest receivable on funds invested, dividend income, and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Taxation

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

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

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

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

Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Whilst some outcomes have been affected by the volatility in the financial markets, all judgements and assumptions in the accounting policies remain consistent with previous years.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- Consideration of impairment to the carrying values of assets has been made and we concluded that the individual carrying values of intangible and other operating assets are supportable by value in use. The carrying values of intangibles relate mainly to the Group's database and data management systems and as such are core to the Group's operations. The group has used forecasted earnings streams to justify the carrying values of the assets and the directors have considered reasonable downsized forecasts which do not consider that these change the recoverability.

Notes *(continued)*

1 Accounting policies *(continued)*

Use of estimates and judgements *(continued)*

- The impact of the current economic conditions on the assessment of going concern has been considered.
- Note 10 – Property, plant and equipment - Depreciation is provided so as to write down the assets to their residual values over their estimated useful lives as set out in the accounting policies for property, plant and equipment and intangible assets. The selection of these residual values and estimated lives requires the exercise of judgement. The Group is required to assess whether there is indication of impairment to the carrying value of assets. In making that assessment, judgements are made in estimating value in use. The directors consider that the individual carrying values of assets are supportable by value in use.
- Note 13 - Deferred tax assets – Represents the extent to which future profits are expected to be offset by losses in the foreseeable future. The Group recognises expected liabilities and assets for tax based on an estimation of the likely taxes affect, which requires judgement as to the ultimate tax determination of certain items.
- Note 17 - Deferred income - Relates to sales invoiced for which the revenue has yet to be recognised. These are recognised over the life of the agreement with the customer.
- Note 18 - Measurement of share-based payments - The fair value of employee share options is measured using the Black Scholes model.
- Note 19 - Provisions and contingencies (onerous leases) – The estimate of excess charges due to non-utilisation of property. This provision is an estimate based on the condition of the property and local market conditions. The actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.
- Note 20 – Fair value of shares issued – The Company opted to use a test of the market place as the most appropriate valuation technique for establishing fair value. For further information, refer to note 20.

2 Segmental information

At Infoserve the Board is regarded as the CODM. The Board sees Infoserve as offering a 'suite' of web based advertising products. While there are differing products/services, often these are sold in varying bundles according to customer requirements. Accordingly the Board allocates resources with the view that Infoserve is a 'one-stop shop' for web based advertising and measures performance against this key business objective. For this reason the Board has concluded that Infoserve has one reportable segment. The turnover, operating profit/loss and net liabilities of the Group are all attributable to the one class of business.

A geographical analysis of turnover is given below:

	2010 **£000**	2009 £000 Restated
United Kingdom	**6,088**	5,485
Channel Islands	**10**	7
Europe	**21**	3
	6,119	5,495

Notes *(continued)*

3 Expenses and auditors' remuneration

Included in the profit/loss for the year are the following:

	2010	2009
	£000	£000
Amortisation of intangible assets	**122**	174
Depreciation of property, plant and equipment – owned assets	**102**	151
(Profit)/loss on sale of property, plant and equipment	**(21)**	10
Operating lease costs – land and buildings	**293**	293
Release of government grant	**2**	1

Auditors' remuneration:

	2010	2009
	£000	£000
Audit of these financial statements	**8**	7
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**7**	7
Other services pursuant to such legislation	**5**	13
Other services relating to taxation	**3**	4

Amounts paid to the Company's auditor in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

4 Staff numbers and costs

The average number of persons employed by the Group and Company (including directors) during the year, analysed by category, was as follows:

	Number of employees Group		**Number of employees Company**	
	2010	2009	**2010**	2009
Management	**7**	7	**7**	7
Telesales and support	**126**	133	**-**	-
Head office	**30**	30	**-**	-
	163	170	**7**	7

The aggregate payroll costs of these persons were as follows:

	Group	
	2010	2009
	£000	£000
Wages and salaries	**3,457**	3,723
Share-based payments (see note 18)	**18**	37
Social security costs	**327**	359
Other pension costs	**49**	62
	3,851	4,181

Notes *(continued)*

5 Directors' remuneration

	2010 **£000**	2009 £000
Directors' emoluments	**297**	432
Company contributions to money purchase pension plans	**58**	59
Share-based payments	**10**	8
Compensation for loss of office	**-**	30

	Directors' emoluments		Company contributions to money purchase pension plans		Share-based payments		Compensation for loss of office	
	2010 £000	2009 £000	**2010 £000**	2009 £000	**2010 £000**	2009 £000	**2010 £000**	2009 £000
Executive Directors								
S M Barnes	**86**	99	**26**	19	**-**	-	**-**	-
D I J Oliver	**79**	85	**13**	13	**-**	-	**-**	-
M A Riley	**71**	78	**18**	12	**3**	-	**-**	-
J P Simpson	**41**	-	**1**	-	**-**	-	**-**	-
D C Balbi	**-**	88	**-**	15	**-**	1	**-**	30
Non Executive Directors								
D R Hood	**(36)**	36	**-**	-	**-**	-	**-**	-
J H Newman	**35**	24	**-**	-	**4**	4	**-**	-
A R Thirkill	**21**	22	**-**	-	**3**	3	**-**	-
	297	432	**58**	59	**10**	8	**-**	30

Acting in his capacity as a non-executive director, D R Hood waived his right to receive his unpaid non-executive director's fee for the current and previous year. An amount of £36,000 has been credited to the current year consolidated statement of comprehensive income in respect of the non payment of these fees.

Directors' rights to subscribe for shares in the Company and its subsidiaries are indicated below:

	Number of options		
	At start of year	**At end of year**	Exercise price £
Directors			
J H Newman	9,000	**9,000**	0.25
A R Thirkill	3,000	**3,000**	0.25
J H Newman	150,000	**150,000**	0.285
A R Thirkill	120,000	**120,000**	0.285
M A Riley	60,000	**60,000**	0.245

For further details of the options, refer to note 18.

	Number of directors	
	2010	2009
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**4**	4

Notes *(continued)*

6 Financial income and expenses

	2010 **£000**	2009 £000
Bank interest receivable	**7**	3
Financial income	**7**	3
Interest payable on loans and borrowings	**95**	178
Interest on shares classified as a liability	**5**	5
Financial expenses	**100**	183

7 Taxation

Recognised in the statement of comprehensive income

	2010 **£000**	2009 £000
Deferred tax		
Origination and reversal of temporary differences	**-**	-
Total tax in statement of comprehensive income	**-**	-

Reconciliation of effective tax rate

	2010 **£000**	2009 £000 Restated
Profit/(loss) for the year	**6**	(1,092)
Total tax expense	**-**	-
Profit/(loss) excluding taxation	**6**	(1,092)
Tax using the UK corporation tax rate of 28% *(2009: 28%)*	**2**	(306)
Non deductible expenses/provisions utilised	**(2)**	94
Effect of tax losses not recognised	**-**	212
Total tax expense	**-**	-

No current or deferred tax has been credited or charged direct to equity.

Notes *(continued)*

8 Earnings per share

The calculation of earnings per share is based upon the profit after taxation of £5,927 *(2009 restated loss: £1,092,865)* divided by 23,566,392 *(2009: 19,073,241),* being the weighted average number of ordinary shares in issue during the year. Share options in issue do not have a material dilutive impact on the earnings/(loss) per share calculation.

	2010	2009 Restated
Basic and diluted earnings/(loss) per share	**0.03p**	(5.72p)
Earnings/(loss) per share before amortisation	**0.54p**	(4.81p)

Weighted average number of ordinary shares:

	2010 000's	2009 000's
Issued ordinary shares at 1 April	**19,073**	19,073
Effect of shares issued in February 2010	**4,493**	-
	23,566	19,073

9 Dividends

The directors propose no dividend to be paid for the year *(2009: £nil).*

Notes *(continued)*

10 Property, plant and equipment – Group

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
Balance at 1 April 2008	132	626	758
Additions	-	15	15
Disposals	-	(37)	(37)
Balance at 31 March 2009	132	604	736
Balance at 1 April 2009	132	604	736
Additions	-	28	28
Disposals	-	(27)	(27)
Balance at 31 March 2010	**132**	**605**	**737**
Depreciation			
Balance at 1 April 2008	18	343	361
Depreciation charge for the year	8	143	151
Disposals	-	(27)	(27)
Balance at 31 March 2009	26	459	485
Balance at 1 April 2009	26	459	485
Depreciation charge for the year	8	94	102
Disposals	-	(27)	(27)
Balance at 31 March 2010	**34**	**526**	**560**
Net book value			
At 1 April 2008	114	283	397
At 31 March 2009 and 1 April 2009	106	145	251
At 31 March 2010	**98**	**79**	**177**

Refer to note 17 for information on grants received to fund a portion of the plant and equipment additions in the current year.

Notes *(continued)*

11 Intangible assets – Group

	Data costs £000	Website costs £000	Data management system £000	Total £000
Cost				
Balance at 1 April 2008	659	485	57	1,201
Additions	104	-	10	114
Balance at 31 March 2009	763	485	67	1,315
Balance at 1 April 2009	763	485	67	1,315
Additions	55	-	18	73
Balance at 31 March 2010	**818**	**485**	**85**	**1,388**
Amortisation				
Balance at 1 April 2008	174	433	-	607
Amortisation for the year	116	45	13	174
Balance at 31 March 2009	290	478	13	781
Balance at 1 April 2009	290	478	13	781
Amortisation for the year	88	7	27	122
Balance at 31 March 2010	**378**	**485**	**40**	**903**
Net book value				
At 1 April 2008	485	52	57	594
At 31 March 2009 and 1 April 2009	473	7	54	534
At 31 March 2010	**440**	**-**	**45**	**485**

Amortisation charge:

The amortisation charge is recognised in the following line items in the statement of comprehensive income:

	2010 £000	2009 £000
Cost of sales	**122**	174

These costs were previously disclosed within administrative expenses but have been reclassified in the year to present them within cost of sales refer to note 1 for further details.

Notes *(continued)*

12 Investment in subsidiary

The Company has the following investment in a subsidiary company:

	Total £000
Cost and net book value	
Balance at 1 April 2008	483
Additions – equity-settled share-based payments	37
Balance at 31 March 2009	520
Balance at 1 April 2009	520
Additions – equity-settled share-based payments	18
Balance at 31 March 2010	538
Net book value	
At 1 April 2008	483
At 31 March 2009 and 1 April 2009	520
At 31 March 2010	**538**

Company	**Principal activity**	**Country of incorporation**	**Class of shares held**	**Ownership 2010**	**Ownership** 2009
Infoserve Limited	The provision of e-marketing services	England and Wales	5p Ordinary and £1 Preference	**100%**	100%
Infoserve.com Limited	Dormant	England and Wales	Ordinary	**100%**	100%
City-Visitor Limited	Dormant	England and Wales	Ordinary	**100%**	100%
2i Local Media Limited	Dormant	England and Wales	Ordinary	**100%**	-
2i Local Limited	Dormant	England and Wales	Ordinary	**100%**	-

Notes *(continued)*

13 Deferred tax assets – Group

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets 2010 £000	2009 £000
Tax value of loss carried forward	**838**	838
Tax assets	**838**	838

Movement in deferred tax during the year:

	1 April 2009 £000	**Recognised in income £000**	**31 March 2010 £000**
Tax value of loss carried forward	838	-	**838**
	838	-	**838**

Movement in deferred tax during the prior year:

	1 April 2008 £000	Recognised in income £000	31 March 2009 £000
Tax value of loss carried forward	838	-	838
	838	-	838

Unrecognised deferred tax asset

Deferred tax assets have not been recognised in respect of the following items:

	2010 £000	2009 £000 Restated
Tax losses	1,623	1,536

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted.

Recognition, therefore, involves judgement regarding the future financial performance of the legal entity in which the deferred tax asset has been recognised.

The directors have considered current trading results and reviewed detailed budgets and projections in considering whether these timing differences will reverse or be utilised in the foreseeable future, when deciding to continue to recognise these deferred tax assets.

Notes *(continued)*

13 Deferred tax assets – Company

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets **2010** **£000**	2009 £000
Tax value of loss carried forward	**90**	90
Tax assets	**90**	90

Movement in deferred tax during the year:

	1 April 2009 £000	**Recognised in income £000**	**31 March 2010 £000**
Tax value of loss carried forward	90	-	**90**
	90	-	**90**

Movement in deferred tax during the prior year:

	1 April 2008 £000	Recognised in income £000	31 March 2009 £000
Tax value of loss carried forward	90	-	90
	90	-	90

Unrecognised deferred tax asset

Deferred tax assets have not been recognised in respect of the following items:

	2010 £000	2009 £000
Tax losses	**-**	-

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future, against which the reversal of temporary differences can be deducted.

Recognition, therefore, involves judgement regarding the future financial performance of the legal entity in which the deferred tax asset has been recognised.

The directors have considered current trading results and reviewed detailed budgets and projections in considering whether these timing differences will reverse or be utilised in the foreseeable future, when deciding to continue to recognise these deferred tax assets.

Notes *(continued)*

14 Trade and other receivables

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Due from subsidiary undertaking	**-**	-	**4,898**	3,106
Trade receivables	44	16	**-**	-
Prepayments and accrued income	218	322	**1**	3
Other receivables	5	7	**-**	-
	267	345	**4,899**	3,109

At 31 March 2010 trade receivables are shown net of an allowance for doubtful debts of £14,403 *(2009: £13,920)* arising from a provision for potential non-payment of debts.

15 Cash and cash equivalents/bank overdraft

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Cash and cash equivalents per statement of financial position	**363**	410	**-**	-
Bank overdraft (secured)	**(250)**	(250)	**-**	-
Cash and cash equivalents per cash flow statement	**113**	160	**-**	-

The bank overdraft is secured against personal assets of Mr D R Hood, a director and major shareholder.

16 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings. For more information about the Group and Company's exposure to interest rate risk and market price risk, see note 23.

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Non-current liabilities				
D R Hood loan account	**1,716**	187	**-**	-
Shares classified as a liability (note 20)	**100**	100	**100**	100
	1,816	287	**100**	100
Current liabilities				
Current portion of D R Hood loan account	**37**	3,278	**-**	-
	37	3,278	**-**	-

Notes *(continued)*

16 Interest-bearing loans and borrowings *(continued)*

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Fair value 2010 £000	Carrying amount 2010 £000	Fair value 2009 £000	Carrying amount 2009 £000
D R Hood loan	£	Linked to base rate	**2024**	**1,533**	**1,533**	3,209	3,209
D R Hood loan	£	Linked to base rate	**N/A**	**18**	**18**	256	256
D R Hood loan	£	10% per annum	**2014**	**202**	**202**	-	-
Shares classified as a liability	£	5% per annum	**N/A**	**100**	**100**	100	100
				1,853	**1,853**	3,565	3,565

Refer to note 22 for loan repayment details.

17 Trade and other payables

	Group 2010 £000	Group 2009 £000 Restated	Company 2010 £000	Company 2009 £000
Trade payables	**477**	690	**-**	-
Non-trade payables and accrued expenses	**882**	1,287	**158**	300
Deferred income	**1,524**	1,589	**-**	-
Deferred government grants	**2**	2	**-**	-
Current liabilities	**2,885**	3,568	**158**	300
Trade payables	**125**	-	**-**	-
Deferred government grants	**18**	20	**-**	-
Non-current liabilities	**143**	20	**-**	-

Included within accrued expenses is £20,000 *(2009: £15,000)* in respect of accrued interest on shares classified as a liability. This amount is payable when the Company has distributable profits.

During 2008, the Group received a government grant of £25,000 for the fit out of the leased property at Pioneer House in Darlington, £1,667 of the grant has been recognised within administrative expenses in the Consolidated Statement of Comprehensive Income.

Deferred income relates to sales invoiced for which the revenue has not yet been recognised.

Notes *(continued)*

18 Employee benefits

Defined contribution plans

The Group operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £48,508 *(2009: £61,647).*

Share-based payments – Group

The Unapproved Share Option Plan and Enterprise Management Schemes were introduced in April 2006. Under these plans the directors can grant options in the Parent Company to employees of the Group. Options are granted with a fixed exercise price. Options may be exercised no earlier than the third anniversary of the date of grant and no later than the tenth anniversary of the date of grant.

Exercise of an option is subject to continuing employment. There are no other vesting conditions attached to the options and no performance criteria have been set.

The terms and conditions of the grants in the year are as follows, whereby all options are settled by physical delivery of shares:

Grant date / employees entitled	**Number of instruments**	**Vesting conditions**	**Contractual life of options**
Equity settled award to participants in the Company's sharesave scheme granted by parent on 31 July 2007	52,000	Continuing employment	2010
Equity settled award to M J Deakin granted by parent on 18 September 2007	30,000	Continuing employment	2010-2017
Equity settled award to J H Newman granted by parent on18 March 2008	150,000	Continuing employment	2011-2018
Equity settled award to A R Thirkill granted by parent on 18 March 2008	120,000	Continuing employment	2011-2018
Equity settled award to M A Riley granted by parent on 7 July 2008	150,000	Continuing employment	2011-2018

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price 2010 pence	**Number of options 2010 number**	Weighted average exercise price 2009 pence	Number of options 2009 number
Outstanding at the beginning of the period	**29.07**	**1,192,827**	28.97	1,165,191
Forfeited during the period	**(37.69)**	**(544,679)**	29.08	(253,230)
Exercised during the period	**-**	**(145,000)**	-	-
Granted during the period	**36.83**	**39,752**	29.50	280,866
Outstanding at the end of the period	**28.76**	**542,900**	29.07	1,192,827
Exercisable at the end of the period	**-**	**-**	-	-

The options outstanding at the year end have an exercise price in the range of 24.5p to 40p *(2009: 24.5p to 41.15p)* and a weighted average contractual life of 6.19 years *(2009: 3.39 years).*

Notes *(continued)*

18 Employee benefits *(continued)*

The fair value of employee share options is measured using the Black Scholes model. Measurement inputs and assumptions are as follows:

Grant date	31 July 2007	18 September 2007
Fair value at measurement date		
Weighted average share price - pence	50	38
Exercise price - pence	40	38
Expected volatility (expressed as % used in the modelling under Black Scholes model)	35.23%	36.70%
Option life (expressed as weighted average life in years used in the modelling under Black Scholes model)	3.5	6.5
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	5%	5%

Grant date	18 March 2008	7 July 2008
Fair value at measurement date		
Weighted average share price - pence	28.5	24.5
Exercise price - pence	28.5	24.5
Expected volatility (expressed as % used in the modelling under Black Scholes model)	41.28%	43.85%
Option life (expressed as weighted average life used in the modelling under Black Scholes model)	6.5	6.5
Expected dividends	-	-
Risk-free interest rate (based on national government bonds)	5%	5%

The expected volatility is based on the historic volatility calculated based on the weighted average remaining life of the share options.

Share options are granted under a continued employment service condition. Such conditions are not taken into account in the grant date fair value measurement of the services received. There are no market conditions associated with the share option grants.

The total expenses recognised for the period arising from share-based payments are as follows:

	2010	2009
	£000	£000
Equity-settled share-based payment expense	**18**	37

Notes *(continued)*

19 Provisions

Group	Total £000
Balance at 1 April 2008	80
Balance at 31 March 2009	80
Balance at 1 April 2009 and 31 March 2010	**80**
Non-current	-
Current	80
	80

In 2006 the Group entered into a lease for office space, a distinct proportion of the building is vacant and available for sub-let. The annual rental attributed to the unoccupied space has been provided for. The onerous lease provision is the estimated liability based on future plans and current property market conditions.

Notes *(continued)*

20 Capital and reserves

Reconciliation of movement in capital and reserves – Group

	Share capital £000	**Share premium £000**	**Retained earnings £000**	**Total equity £000**
Balance at 1 April 2008 (restated)	954	3,871	(8,875)	(4,050)
Total recognised income and expense (restated)	-	-	(1,092)	(1,092)
Equity-settled share-based payment transactions	-	-	37	37
Balance at 31 March 2009 (restated)	954	3,871	(9,930)	(5,105)
Balance at 1 April 2009 (restated)	954	3,871	(9,930)	(5,105)
Total recognised income and expense	-	-	6	6
Equity-settled share-based payment transactions	-	-	18	18
Equity shares issued in the year	2,000	-	-	2,000
Balance at 31 March 2010	**2,954**	**3,871**	**(9,906)**	**(3,081)**

Reconciliation of movement in capital and reserves – Company

	Share capital £000	**Share premium £000**	**Retained earnings £000**	**Total parent equity £000**
Balance at 1 April 2008	954	3,871	(694)	4,131
Total recognised income and expense	-	-	(849)	(849)
Equity-settled share-based payment transactions	-	-	37	37
Balance at 31 March 2009	954	3,871	(1,506)	3,319
Balance at 1 April 2009	954	3,871	(1,506)	3,319
Total recognised income and expense	-	-	(68)	(68)
Equity-settled share-based payment transactions	-	-	18	18
Equity shares issued in the year	2,000	-	-	2,000
Balance at 31 March 2010	**2,954**	**3,871**	**(1,556)**	**5,269**

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the Parent Company is not presented as part of these financial statements.

Notes *(continued)*

20 Capital and reserves *(continued)*

On 19 February 2010 Mr D R Hood subscribed for 40 million new ordinary shares at 5p per share. On this date the shares were quoted on AIM at 7.5p per share.

The Board take their responsibilities for preparing the financial statements in accordance with IFRSs as adopted by the EU and applicable law very seriously.

The Board considered the application guidance to IAS 39 which states that the existence of published price quotations in an active market is the best evidence of fair value.

In arriving at their assertion that 5p represented the fair value of the shares at the transaction date, rather than the quoted price, a detailed paper was prepared and considered by the Board.

The considerations that the Board used in arriving at the fair value of 5p were as follows:

- The quoted price is an inaccurate measure of fair value of this number of shares due to the following reasons:
  - The level of trades in the Group's shares are relatively low and any significant transactions are typically between related parties or employees;
  - The share prices has historically been relatively volatile over short spaces of time with little perceived reason for the movements;
  - Previously when raising new funds through the AIM market it has been offered at a discount to the quoted price;
  - A larger company within the same market sector had placed new shares in the market at a discount to the quoted rate during the year.
- 5p per share, was considered to be the fair value, by the Board, for the following reasons:
  - The market for the Company's shares is considered to be inactive;
  - The Group's directors has taken appropriate advice from their nominated adviser and broker;
  - Earlier in the year the Group had canvassed numerous institutional investors offering new funds at 6p per share. This proposed placing ultimately failed, providing further evidence to the Board of the fair value of a share;
  - The Company had been unable to raise new funds through other means.

The Board note the application guidance to IAS 39 in relation to inactive markets, which states that an alternative valuation technique should be used. Whilst the Group had not employed a formally recognised valuation technique the Board consider their procedures and analysis to be robust in determining the fair value and that any difference in using a valuation technique would not have been material.

The Board is confident that the issue price of 5p per share represented fair value and that the considerations used at arriving at this price represented the best possible valuation technique over and above the quoted price, having performed a real and appropriately sized test of the market.

Had the Group used the quoted price as the fair value instead of the directors market based valuation technique this would have resulted in an increase in share premium and a decrease in retained earnings of £1 million.

Notes *(continued)*

20 Capital and reserves *(continued)*

The motive and purpose of each reserve within equity is as follows:

Reserve	*Description and purpose*
Retained earnings	Cumulative net gains and losses recognised earnings in the consolidated statement of comprehensive income.
Share premium	Amount subscribed for share capital in excess of nominal value, and deduction of costs of raising equity.

Share capital

	Cumulative preference shares of £1 each		**Ordinary share of 5p each**	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
At 1 April 2009	**100**	100	**954**	954
Proceeds from issue of shares	**-**	-	**2,000**	-
At 31 March 2010 – fully paid	**100**	100	**2,954**	954

	2010	2009
	£000	£000
Authorised		
100,000,000/30,000,000 Ordinary shares of 5p each	**5,000**	1,500
150,000 Cumulative preference shares of £1 each	**150**	150
	5,150	1,650
Allotted, called up and fully paid		
59,073,441/19,073,441 Ordinary shares of 5p each	**2,954**	954
100,000 Cumulative preference shares of £1 each	**100**	100
	3,054	1,054
Shares classified as liabilities	**100**	100
Shares classified in shareholders' funds	**2,954**	954
	3,054	1,054

Notes *(continued)*

20 Capital and reserves *(continued)*

The ordinary shares entitle the owner to one vote for every share held. The preference shares carry no voting rights. Neither the ordinary shares nor the preference shares are redeemable.

Interim and final dividends on the ordinary shares may be recommended by the Board at any time. The preference shares attract a fixed cumulative aggregate cash dividend of 5% per annum. This is payable when the Company has distributable reserves. Dividends shall be payable annually and no later than four months after the year end to which it relates.

Upon winding up the Company, the surplus assets of the Company remaining after payment of its liabilities shall be applied as follows:

(i) paying to the holders of the Preference shares an amount equal to the nominal value of such shares, together with a sum equal to all arrears or accrual of dividends;

(ii) the remaining assets shall belong and be distributed to the ordinary shareholders.

21 Operating lease

Non-cancellable operating lease rentals are payable as follows:

Group

	2010	2009
	£000	£000
Less than one year	**246**	308
Between one and five years	**986**	986
More than five years	**1,581**	1,827
	2,813	3,121

During the year £293,547 was recognised as an expense in the statement of comprehensive income in respect of operating leases *(2009: £293,493)*.

22 Related parties

Group

Transactions with key management personnel

The remuneration of the directors, who are the key management personnel of the Group is disclosed in note 5. A number of key management personnel or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm’s length basis.

Directors of the Company and their immediate relatives control 89.07 per cent *(2009: 66.27 per cent)* of the voting shares of the Company.

Notes *(continued)*

22 Related parties *(continued)*

At 31 March 2010, an amount of £911,552 *(2009: £2,661,552)* (being the principal loan excluding interest) was owed by Infoserve Limited to D R Hood, a director and principal shareholder of Infoserve Group plc. The £1,750,000 reduction in the amount of the loan was as a result of the debt to equity conversion which took place on 19 February 2010. Interest is charged on the loan at a rate of 2.5% above Barclays Bank plc base rate. Interest charged on the loan during the year amounted to £73,949 *(2009: £168,616)* and £621,805 remained unpaid at the year end *(2009: £547,856)* and is included within interest-bearing loans and borrowings.

On 19 February 2010 an amount of £250,000 owed by Infoserve Limited to D R Hood was repaid in full as a result of the debt to equity conversion. Interest was charged on the loan at a rate of 2.5% above Barclays Bank plc base rate. Interest charged on the loan during the year amounted to £12,205 *(2009: £5,805)* and £18,010 remained unpaid at the year end *(2009: £5,805)* and is included within interest-bearing loans and borrowings.

The existing loan agreement with D R Hood has been amended, suspending any repayments of capital and interest due on the loans between 28 January 2010 and 31 January 2011. The Company is due to make repayments of £12,500 per month commencing on 31 January 2011 until the principal loan and any outstanding interest is repaid.

During the year D R Hood agreed to make available a new loan facility of not less than £550,000, of which £200,000 has been loaned to the Company at the year end. This loan can be increased by a further £250,000 should the Group's overdraft facility need to be repaid. Interest is charged on the loan at a rate of 10%. Interest charged on the loan during the year amounted to £2,082 *(2009: £nil)* and £2,082 remained unpaid at the year end *(2009: £nil)* and is included within interest-bearing loans and borrowings. The loan will be repaid in equal monthly instalments of £12,500 commencing on 31 January 2012 until the capital balance and the outstanding interest is repaid in full.

Infoserve Limited entered into a lease agreement to rent property from Amerdale Investments LLP, a business in which D R Hood has an interest. The lease expenditure in the year included in administrative expenses from Amerdale Investments LLP amounted to £267,552 *(2009: £267,644).* The amount owed by Infoserve Limited at the balance sheet date was £273,798 *(2009: £148,591)* and represents two thirds of the current quarter's charge and nine months of rent deferral. The lease is for a term of fifteen years at £246,405 per annum, with the first year being rent free. The period between rent reviews is five years.

During the year, Infoserve Limited made sales of £33,061 *(2009: £33,229)* to and purchases of £59,090 *(2009: £76,096)* from Multiflight Limited, a company in which D R Hood is a director and principal shareholder. At the balance sheet date Infoserve Limited owed £63,595 *(2009: £42,918)* to Multiflight Limited.

During the year, Infoserve Limited made sales of £11,443 *(2009: £nil)* to Freedom Medical Care Limited, a company in which D R Hood and A R Thirkill are directors and shareholders and S M Barnes is a director. At the balance sheet date Freedom Medical Care Limited owed Infoserve Limited £nil *(2009: £nil).*

Acting in his capacity as a non-executive director, D R Hood waived his right to receive his unpaid non-executive director's fee for the current and previous year. An amount of £36,000 has been credited to the current year consolidated statement of comprehensive income in respect of the non payment of these fees.

23 Financial instruments

Fair values of financial instruments

Trade and other receivables

The fair value of trade and other receivables, excluding construction contract debtors, is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Notes *(continued)*

23 Financial instruments *(continued)*

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Financial instruments

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

- Liquidity risk
- Market price risk
- Interest rate risk
- Credit risk

Policy for managing these risks is set by the Board. The policy for each of the above risks is described in more detail below.

Liquidity risk

The liquidity risk of the Group is managed centrally. Liquidity risk arises from the Group's management of working capital and the finance charges and principal payments on debt financing. It is the risk that the Infoserve Group will have difficulty in meeting its financial obligations as they fall due. The Group currently has sufficient liquid resources to meet the liquidity requirements of the business and its future plans.

Maturity of financial liabilities

The carrying amounts of financial liabilities (excluding unamortised finance costs), all of which are UK based and exposed to cash flow or fair value interest rate risk, are repayable as follows:

	On demand 2010 £000	**Long term borrowing 2010 £000**	On demand 2009 £000	Long term borrowing 2009 £000
Less than one year	**37**	**-**	554	2,724
1 to 2 years	**-**	**187**	-	187
2 to 5 years	**-**	**613**	-	-
Over 5 years	**-**	**1,016**	-	100

The interest on the loans from D R Hood is charged at a rate of 2.5% above Barclays Bank plc base rate on the first £911,552 and at 10.0% on the remaining £200,000. The preference shares of £100,000 attract a fixed cumulative aggregate cash dividend of 5% per annum.

Market price risk

Market price risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates, currency rates or other market factors. The Group's customer base is largely within the UK so changes in exchange rate pose no significant risk.

Notes *(continued)*

23 Financial instruments *(continued)*

Interest rate risk

The Group finances its operations through equity and other borrowings. The interest calculated on other borrowings is at base rate plus 2.5% and a fixed rate of 10.0%. The Group's exposure to interest rate risk arises from fluctuations in base rate. The Group reviews borrowings at Board meetings.

The key sensitivity impacting the interest rate risk of the Group is movements in the base rate. It is estimated that a 0.5% movement in this rate would change the interest charge by £5,808.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

The Infoserve Group's credit risk is primarily derived from its trade receivables. This risk is managed daily by the Group's credit control function who monitor recovery and ensure that outstanding debts are identified when these become overdue and appropriate action is taken to recover the amounts outstanding.

Due to the wide range of customers, the Group has no substantial exposure to any individual third party in respect of trade receivables.

The exposure to credit risk as at 31 March 2010 was as follows:

Group	**2010 £000**	2009 £000
Gross trade receivables	**58**	30
Provision for trade receivables	**(14)**	(14)
Net trade receivables	**44**	16
Cash and cash equivalents	**113**	160

The Board receives management information each month regarding sales and trade receivables and monitors the Group's performance. The following table illustrates the concentrations of credit risk within the Group as at the balance sheet date. All UK based.

	Gross debtors £000	**Provision £000**	**Due in 30 days £000**	**30 –60 days £000**	**Greater than 60 days £000**
31 March 2010	**58**	**(14)**	**27**	**18**	**13**
31 March 2009	30	(14)	21	3	6

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	Group		**Company**	
	2010 £000	2009 £000	**2010 £000**	2009 £000
Balance at 1 April	**14**	25	**-**	-
Impairment loss recognised	**-**	-	**-**	-
Impairment loss reversed	**-**	(11)	**-**	-
Balance at 31 March	**14**	14	**-**	-

Notes *(continued)*

23 Financial instruments *(continued)*

The Group's maximum credit risk is equal to the carrying value for trade receivables and cash and cash equivalents.

The Group's credit quality is considered by the directors to be high due to the volume of upfront payments that are received. Due to the nature of the Group's activities, the credit risk of failure of the largest customer is considered immaterial.

Fair values

The carrying values and fair values of each class of financial asset and liability during the year were:

Group	Carrying value 2010 £000	2009 £000	Fair value 2010 £000	2009 £000
Trade receivables	**44**	16	**44**	16
Other receivables	**5**	7	**5**	7
Cash and cash equivalents	**363**	410	**363**	410
Bank overdraft	**(250)**	(250)	**(250)**	(250)
Trade payables	**(602)**	(690)	**(602)**	(690)
Interest-bearing loans and borrowings	**(1,853)**	(3,565)	**(1,853)**	(3,565)

Capital

The Group considers its capital to comprise its ordinary share capital, preference share capital and share premium account less accumulated retained losses.

It is the Group's policy to maintain its gearing ratios at a level that balances risks and returns and ensures that the Company has sufficient liquidity in the business.

Should the Company's overdraft need to be repaid, D R Hood has agreed a £250,000 extension to the current £550,000 loan facility in order to repay if required.

24 Analysis of net debt

	Group 2010 £000	2009 £000	Company 2010 £000	2009 £000
Amounts falling due within one year:				
Bank overdraft	**250**	250	**-**	-
D R Hood loan in current liabilities	**37**	3,278	**-**	-
	287	3,528	**-**	-
Amounts falling due after more than one year:				
D R Hood loan in non-current liabilities	**1,716**	187	**-**	-
Shares classified as a liability	**100**	100	**100**	100
Total loans and other borrowings	**2,103**	3,815	**100**	100
Cash and cash equivalents	**(363)**	(410)	**-**	-
Net debt at the end of the year	**1,740**	3,405	**100**	100

Notes *(continued)*

24 Analysis of net debt *(continued)*

The movement in net debt for the year ended 31 March 2010 arose as follows:

	Group		**Company**	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Net cash from operating activities	**153**	293	**-**	-
Cash flows from investing activities	**94**	126	**-**	-
Non cash proceeds from the repayment of debt through the issue of shares	**(2,000)**	-	**-**	-
Interest accrued on D R Hood loans	**88**	169	**-**	-
Movement in net debt in the year	**(1,665)**	588	**-**	-
Net debt as at 1 April 2009	**3,405**	2,817	**100**	100
Net debt as at 31 March 2010	**1,740**	3,405	**100**	100

25 Capital commitments

The Group had no capital commitments at 31 March 2010 *(2009: £nil)*.

26 Post balance sheet events

In May 2010, we announced that James Newman, our Chairman, was leaving the Group to concentrate on his other interests. Steve Barnes has taken up the position of Executive Chairman. The Board believe that it is appropriate for the two roles to be combined in the short to medium term given the size of the company.

On 10 May 2010 the Company announced that it had entered into a joint venture agreement with Iliffe News and Media Limited ("INML"), the media arm of Yattendon Investment Trust with interests in local media including newspaper publishing and television.

Under the agreement, a joint venture company ("2i Local") will offer SMEs the opportunity to purchase a combined internet and print advertising package. This will give businesses guaranteed exposure to their target market through online local search and local newspaper coverage. Infoserve Limited and INML each own 50% of the issued share capital of 2i Local.

Notes *(continued)*

27 Prior year adjustment

The change to the treatment of term advertising revenue has the following impact on the financial results of the Group:

	Group	
	2009	2008
	£000	£000
	Restated	Restated
Non-current assets		
Property, plant and equipment	251	397
Intangible assets	534	594
Deferred tax assets	838	838
	1,623	1,829
Current assets		
Trade and other receivables	345	282
Cash and cash equivalents	410	329
	755	611
Total assets	2,378	2,440
Current liabilities		
Bank overdraft	(250)	-
Interest-bearing loans and borrowings	(3,278)	(2,123)
Trade and other payables	(3,568)	(3,243)
Provisions	(80)	(80)
	(7,176)	(5,446)
Non-current liabilities		
Interest-bearing loans and borrowings	(287)	(1,023)
Trade and other payables	(20)	(21)
	(307)	(1,044)
Total liabilities	(7,483)	(6,490)
Net liabilities	(5,105)	(4,050)
Equity attributable to equity holders of the parent		
Share capital	954	954
Share premium	3,871	3,871
Retained earnings	(9,930)	(8,875)
Total equity	(5,105)	(4,050)