

Infoserve Group plc

Directors' report and financial
statements

Registered number 05750143

Year ended 31 March 2008

Contents

| | |
|---|----|
| Officers and professional advisers | 1 |
| Chairman's statement | 2 |
| Chief Executive's review | 4 |
| Financial review | 6 |
| Directors' report | 8 |
| Corporate governance | 14 |
| Statement of directors' responsibilities in respect of the directors' report and the financial statements | 16 |
| Independent auditors' report to the members of Infoserve Group plc | 17 |
| Consolidated income statement | 19 |
| Balance sheets | 20 |
| Statement of cash flows | 22 |
| Statement of changes in shareholders' equity | 23 |
| Notes | 24 |

Officers and Professional Advisers

The Board of Directors: J H Newman (Non Executive Chairman)
S M Barnes (Chief Executive Officer)
D R Hood (Senior Non Executive Director)
A R Thirkill (Non Executive Director)
D C Balbi (Finance and Commercial Director)
D I J Oliver (Operations 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

Chairman's Statement

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

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

Results

Turnover for the year increased by approximately 25% to £4.65 million from £3.76 million during the previous year. This growth in turnover was restricted by the ability to recruit and train enough suitable sales staff and the limited funds available to market the business.

However, it is pleasing to note that productivity per person increased substantially throughout the year from £32,000 per active sales person to £46,600, which meant that gross margins also improved. This demonstrates that the online market is growing and the new partnerships and products being developed are likely to sell well over time and with renewal levels being maintained at a steady level, the transparency of future revenue becomes clearer.

Overheads have been well managed following the strategic cost review in October last year when a substantial amount of overhead expenditure was taken out of the business without affecting the day to day operations. Second half expenditure reflected a saving of around £700,000 on an annualised basis and has reduced monthly cash outflow significantly.

The lower than expected sales base led to an operating loss of £2.70 million compared to £3.07 million last year. After taking into account the net finance cost, there was a loss before taxation of £2.89 million (2007 - £3.23 million).

The loss per share was 16.22p compared to 18.65p in 2007.

These financial results are reported under IFRS for the first time. The principal impacts relate to the treatment of goodwill amortisation on business combinations and lease costs.

During the year, the Group reviewed its revenue recognition policy and this has resulted in taking a more prudent approach with revenue on renewal sales being spread more evenly over the life of the paid business listing for renewal business.

Dividend

The Board is not recommending a dividend as all funds are required for the development of the business (2007: £nil).

Share placing

In June 2007, the Company raised £1.88 million net of expenses by way of a placing of 4,444,445 ordinary shares at a price of 45p per share. This was to enable the expansion of the Group's sales and marketing activities by recruiting and training additional sales staff required to manage the recent contract win from Yahoo!.

Chairman's Statement *(continued)*

Business developments

The new contract with Yahoo! started early in the financial year and has added significantly to the range of products offered by the Group to its customer base. The sales experience and technical knowledge gained in operating this and other partnership contracts has made the Group one of the leading exponents of the local search market in the UK.

In addition to this, the Group was able to announce in January this year a major contract with Google, who appointed the Group as only its second Authorised Reseller of Google AdWords in Europe. This contract recognised the experience and expertise in providing online marketing solutions to SMEs that the Group has built up over the last few years.

Since the award of the contract a considerable amount of time has been spent with Google in creating the technical platform and market testing of the product was launched in late May 2008.

Board changes

During the year, some of the responsibilities of the executive directors changed, as the strategic and operational demands of the business continued to evolve. This has worked well with the telesales operations being restructured in light of the new Yahoo! contract and considerable success has been achieved in substantially increasing productivity as a result.

Now that this has been achieved and with the introduction of the new Google products, the Board has decided to appoint a dedicated Sales Director to manage and expand the telesales operations. We anticipate being able to make an announcement regarding an appointment in due course.

David Balbi will continue as Finance and Commercial Director but will now spend more time on commercial and finance issues as the Group moves forward with new products and relationships.

Outlook

The market for online local search continues to grow and the Group now has almost 3.5 million businesses listed on its own business directories across a network of over 120 single industry vertical websites.

The new contract with Yahoo! gave the business a new impetus during the year and the recently signed contract with Google puts the Group in a unique position to exploit the ever growing local search market through its close ties with both companies, who represent over 90% of the UK's search and online advertising market.

The restructuring of the cost base and the telesales operations has given the Group an efficient platform from which it can continue to grow.

James H Newman

Chairman

25 June 2008

Chief Executive's Review

Market drivers

During the last financial year online local search has continued to grow.

The following facts speak for themselves. The latest published data highlights the extraordinary growth in local search internet activity: -

- Last year paid for search became a £1.4 billion medium in the UK, accounting for 57.1% of the total amount of money spent on online advertising.
- Last year 28 million people visited a search engine in the UK each month and 26.2 million of these clicked through onto a site. Google searches recently reached 1.7 billion per month in the UK, which equates to an average of 23 searches per month for every single person in the UK!
- 90% of the internet population visited a search engine in 2007 and 83% clicked through to another website.
- On average, during each search session, UK consumers click through to other sites 3.3 times.
- Internet advertising is anticipated to top £2.7 billion in 2007, and is forecast to continue to grow dramatically for at least the next 5 years.

With a 44% growth in the paid search sector, advertisers of all sizes have recognised the effectiveness of the medium.

Since the launch of Infoserve Limited in 1999 online local search has grown year on year. Today 86% of all internet users search online for local goods and services and 90% of those searches result in some form of offline activity, usually a phone call or a visit to a business.

Business developments

We have cemented our position as one of the UK's leading online local search specialists, and during the last financial year we signed significant contracts with the two dominant global search engines, Google and Yahoo!. These strategic partnerships position Infoserve uniquely in the UK, and will be the foundation of growth over the next few years.

In May 2007 we became the official Yahoo! Local advertising sales partner for the UK, which gave us exclusive rights to sell up to four featured listings to SMEs on each page of Yahoo! Local. We have already signed more than 5,000 SMEs to feature on Yahoo!.

In early 2008 we announced a significant contract with Google resulting in us becoming one of only two companies in Europe to be appointed an Authorised Reseller of Google AdWords.

Under this new strategic agreement we will provide SMEs with full-service Google AdWords account management in order to maximise the return on investment for each customer. I am particularly proud that our integrity and transparency in our dealings with our customers enabled us to win this contract.

The test phase of this service was launched in late May 2008, after 4 months collaborative work between the technical, development and product marketing teams of Infoserve and Google. The contract will have an increasing impact on earnings in 2008/9.

Chief Executive's Review *(continued)*

Existing contracts

In addition to the exciting developments with Google and Yahoo! we have continued to invest in, develop and grow sites displaying our local search data. Our relationship with the Football League has expanded to include 49 separate football club websites, which puts our data in front of over 6 million visitors to these sites each month.

Our business database of almost 3.5 million business records continues to grow, and through our daily contact with approximately 10,000 SMEs we are able to cleanse and generate up to 100,000 updates each month. We continue to collect customers' keywords, and now have the ability to deliver comprehensive relevant local search results for over 500,000 businesses. As search becomes more granular and more detailed in nature, these keywords describing all the different products and services of a business will prove increasingly important in directing consumers to the most relevant provider.

We continue to enhance our own portfolio of directory sites spearheaded by www.cityvisitor.co.uk. Our single industry vertical directories now number more than 120. This portfolio enjoys more than 23 million first page results on the major search engines, covering a broad range of business categories and locations.

A recent survey by The Kelsey Group reveals that 90% of consumer purchases are made within 20 miles of where people live or work. Our network of sites now receives more than 32 million visitors per month. We are matching local search demand with relevant and appropriate solutions.

We continue to build websites, from simple template solutions through to bespoke comprehensive sites with full e-commerce facilities. Remarkably almost 50% of SMEs are still without a website and so the potential for website sales clearly remains substantial.

Summary

The challenge remains for all involved with local search to move to profitability. I remain convinced that local searching online will continue to grow and become integral to everyday lifestyles. We will constantly look to monetise business solutions in order to profitably benefit from the continued market growth.

The last year was an exciting period for Infoserve. Our revenues grew, as we continued to invest for the future. We were chosen by global brands, Google and Yahoo! to form strategic alliances. We grew our business database, and strengthened our position in the online local search market.

I look forward to an exciting future as the local search market grows in general, and the Group's market share of available revenues grows also.

Stephen M Barnes
Chief Executive
25 June 2008

Financial Review

| | 2008 £000 | 2007 £000 |
|-----------------------------------|----------------|--------------|
| Revenue | 4,651 | 3,763 |
| Cost of sales | (4,122) | (3,610) |
| | <hr/> | <hr/> |
| Gross profit | 529 | 153 |
| Amortisation of intangible assets | (251) | (162) |
| Administrative expenses | (2,975) | (3,064) |
| | <hr/> | <hr/> |
| Operating loss | (2,697) | (3,073) |
| Financial income | 34 | 47 |
| Financial expenses | (227) | (202) |
| | <hr/> | <hr/> |
| Net financing costs | (193) | (155) |
| | <hr/> | <hr/> |
| Loss before tax | (2,890) | (3,228) |
| | <hr/> <hr/> | <hr/> <hr/> |

Revenue

Revenue for the year has increased by approximately 25% year on year and the performance per sales executive increased from £32,000 to £46,600, a rise of 45% on last year and 191% on the same period two years ago.

The revenue recognised in the prior financial year has been restated following a review by the Board. Previously a proportion of all revenue was recognised at the point of sale. The Board now believes that renewal revenue should be spread evenly over the term of the paid business listing as this more accurately reflects the substance of the transaction. The treatment of new business revenues remains unchanged. The specific impact of this change can be seen in more detail in note 26.

Margins

Gross margins have improved from 4% to over 11% during the financial year and in the second half to nearly 24%, reflecting the increased productivity and reduced recruitment costs partially as a result of improved retention.

Results

Operating losses have reduced by £0.38 million as a result of the improved sales margins and the reduction in overhead costs following the strategic cost review undertaken in October 2007.

Cash flow

As the Group continues to make operating losses and invest in systems and technology, the cash outflow of the Group during the year was over £1.83 million. This was offset by the net proceeds from the share issue in June 2007 of £1.88 million.

The Group has recently arranged a new bank overdraft facility of £0.25 million.

Financial Review *(continued)*

IFRS

International Financial Reporting Standards (IFRSs) came into effect for AIM listed companies for accounting periods beginning on or after 1 January 2007. The accounts have been prepared under IFRS and a reconciliation of the adjustment between UK GAAP and IFRS is shown in notes 26 and 27.

Deferred tax asset

The Board has prepared forecasts and continues to believe that the Group will become 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 balance sheet.

Going concern

The directors note that the Group has net liabilities, net current liabilities and sustained trading losses in the year.

David Hood, the largest single shareholder, has provided the Board of Directors with a written undertaking to not seek repayment on any loans in accordance with the terms and conditions of his loan agreement, until such time as the Group is cash flow positive or there is a fundamental change in the share ownership of the Group.

On the basis of this undertaking, the directors have reviewed the cash projections, funding arrangements and the nature and extent of shareholder support for the next twelve months and the foreseeable future and believe that the Company and Group can operate within these arrangements and facilities. Accordingly they believe the going concern assumption to be an appropriate basis for the preparation of the financial statements.

David C Balbi
Finance and Commercial Director
25 June 2008

Directors' Report

The directors present their directors' report and financial statements for the year ended 31 March 2008.

Activities and review of the business

The Group's principal activity is the provision of e-marketing services, specialising in local search. The prior period results covered the period from incorporation on 21 March 2006 to 31 March 2007, however, Infoserve Group plc did not trade between the date of incorporation and 31 March 2006 and therefore for comparative purposes the results represent a full year's trading.

The Group has achieved revenues of £4,651,000 (2007: £3,763,000), an operating loss of £2,697,000 (2007: £3,073,000) and a loss before tax of £2,890,000 (2007: £3,228,000).

On 15 June 2007, the Company issued 4,444,445 ordinary shares of 5p each for a cash consideration of 45p per share.

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%. The Group's exposure to interest risk are fluctuations in base rate. The Group reviews borrowings at Board meetings.

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

Financial key performance indicators (KPIs)

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

| | 2008 | 2007 | |
|---------------------------------|-----------------|----------|--|
| Gross profit margin | 11.37% | 4.07% | Gross profit/turnover |
| Operating loss margin | (57.99)% | (81.66)% | Operating loss/turnover |
| Creditor days | 49 days | 49 days | Trade creditors/credit purchases |
| Performance per sales executive | £46,600 | £32,000 | Total telesales revenue/average number of telesales executives |

Proposed dividend

The directors do not recommend the payment of a dividend (2007: £nil).

Directors' Report *(continued)*

Directors and their interests

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

| | Beneficial Holdings | |
|--------------|----------------------------|-------------|
| | At 31 March | At 31 March |
| | 2008 | 2007 |
| | No. | No. |
| J H Newman | 55,267 | 55,267 |
| S M Barnes | 1,665,340 | 1,665,340 |
| D R Hood | 8,937,707 | 8,937,707 |
| A R Thirkill | 67,417 | 67,417 |
| D C Balbi | - | - |
| D I J Oliver | 1,844,760 | 1,844,760 |

| | Non-Beneficial Holdings | |
|------------|--------------------------------|-------------|
| | At 31 March | At 31 March |
| | 2008 | 2007 |
| | No. | No. |
| J H Newman | 26,125 | 26,125 |
| S M Barnes | 43,741 | 43,741 |

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 | At 31 March |
| | 2008 | 2007 |
| | No. | No. |
| D R Hood | 100,000 | 100,000 |

There have been no changes in the above interests between 31 March 2008 and the date of this report.

Directors' Report *(continued)*

Directors and their interests *(continued)*

On 16 January 2008, options were granted by the Group to D C Balbi at an option price of 19.5 pence per share. The options granted and outstanding as at 31 March 2008 are shown below.

On 17 March 2008, options were granted by the Group to D C Balbi at an option price of 0 pence per share. The options granted and outstanding as at 31 March 2008 are shown below.

On 18 March 2008, options were granted by the Group to J H Newman and A R Thirkill at an option price of 28.5 pence per share. The options granted and outstanding as at 31 March 2008 are shown below.

| | Class of share | Options outstanding at 31 March 2008 | Options outstanding at 31 March 2007 | Exercise price (pence) | Vesting year |
|--------------|----------------|--------------------------------------|--------------------------------------|------------------------|---------------|
| 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 |
| D C Balbi | Ordinary 5p | 120,000 | 120,000 | 30.0 | 2010 – 2017 |
| D C Balbi | Ordinary 5p | 60,000 | - | 19.5 | 2011 – 2018 |
| D C Balbi | Ordinary 5p | 145,000 | - | 0.0 | No time limit |
| J H Newman | Ordinary 5p | 150,000 | - | 28.5 | 2011 – 2018 |
| A R Thirkill | Ordinary 5p | 120,000 | - | 28.5 | 2011 – 2018 |

Other than D C Balbi's 145,000 options which do not have a time limit, the options are exercisable no earlier than three years following the date of grant, and no later than ten years following the date of grant.

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. All options require the employee to be in continued employment to enable the option to be exercised.

Report on remuneration

The remuneration committee comprises D R Hood (Chairman), J H Newman 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 6 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

Save for the directors' interests disclosed above, 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)*

Financial risk management objectives and policies

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. Such a funding requirement may be by way of the issue of further ordinary shares on a non pre-emptive basis.

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.

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.

Directors' Report *(continued)*

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 as 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 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 49 days (*2007: 49 days*) purchases in trade payables, calculated in accordance with the requirements set down in the Companies Act 1985. 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 were £756 (*2007: £500*).

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.

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.

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.

Directors' Report *(continued)*

Auditors

On 11 November 2007 Chadwick LLP resigned as auditors of the Company. KPMG Audit Plc were subsequently appointed as auditors of the Company.

In accordance with Section 384 of the Companies Act 1985, 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
25 June 2008

Corporate Governance

Application of the principles of good governance

The rules relating to securities traded on the Alternative Investment Market ('AIM') 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 a non-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 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 C1.2 of the Code (review of effectiveness of internal control system) from the date of its flotation on the Alternative Investment Market.

Going concern

The director's 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 directors' report and the financial statements

The directors are responsible for preparing the Directors' 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 laws and have elected to prepare the parent company financial statements on the same basis.

The Group and parent company financial statements are required by law and IFRSs as adopted by the EU to present fairly the financial position of the Group and the parent company and the performance for that period, the Companies Act 1985 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 proper accounting records that 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 1985. They have a 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 Group and parent company financial statements (the "financial statements") of Infoserve Group plc for the year ended 31 March 2008 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Changes in Shareholders' Equity and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 16.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report indicates that specific information presented in the Chairman's statement that is cross referred from the principal activities and business review section of the Directors' report.

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

We read the other information contained in the Directors' report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 March 2008 and of its loss for the year then ended;
- the Parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 1985, of the state of the Parent Company's affairs as at 31 March 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

25 June 2008

Consolidated Income Statement
For the year ended 31 March 2008

| | <i>Note</i> | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 | | | | | | | | | | | | |
|--|-------------|--|--|-----------------------------------|--|-------|-------|-------------------------|--|---------|---------|--------------------------------------|--|----------------|---------|
| Revenue – continuing operations | <i>1,3</i> | 4,651 | 3,763 | | | | | | | | | | | | |
| Cost of sales | | (4,122) | (3,610) | | | | | | | | | | | | |
| Gross profit | | 529 | 153 | | | | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Amortisation of intangible assets</td> <td></td> <td style="text-align: right;">(251)</td> <td style="text-align: right;">(162)</td> </tr> <tr> <td>Administrative expenses</td> <td></td> <td style="text-align: right;">(2,975)</td> <td style="text-align: right;">(3,064)</td> </tr> <tr> <td>Total administrative expenses</td> <td></td> <td style="text-align: right;">(3,226)</td> <td style="text-align: right;">(3,226)</td> </tr> </table> | | | | Amortisation of intangible assets | | (251) | (162) | Administrative expenses | | (2,975) | (3,064) | Total administrative expenses | | (3,226) | (3,226) |
| Amortisation of intangible assets | | (251) | (162) | | | | | | | | | | | | |
| Administrative expenses | | (2,975) | (3,064) | | | | | | | | | | | | |
| Total administrative expenses | | (3,226) | (3,226) | | | | | | | | | | | | |
| Operating loss – continuing operations | <i>1,4</i> | (2,697) | (3,073) | | | | | | | | | | | | |
| Financial income | <i>7</i> | 34 | 47 | | | | | | | | | | | | |
| Financial expenses | <i>7</i> | (227) | (202) | | | | | | | | | | | | |
| Net financing costs | | (193) | (155) | | | | | | | | | | | | |
| Loss before tax | | (2,890) | (3,228) | | | | | | | | | | | | |
| Taxation | <i>8</i> | (55) | 893 | | | | | | | | | | | | |
| Loss for the year | <i>21</i> | (2,945) | (2,335) | | | | | | | | | | | | |
| Basic and diluted loss per share | <i>9</i> | (16.22p) | (18.65p) | | | | | | | | | | | | |

The notes on pages 24 to 57 form part of these financial statements.

Balance Sheets
At 31 March 2008

| | Note | Group | | Company | |
|---------------------------------------|------|-----------------------|----------------|---------------------|--------------|
| | | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 397 | 480 | - | - |
| Intangible assets | 12 | 594 | 514 | - | - |
| Investment in subsidiary | 13 | - | - | 483 | 394 |
| Deferred tax assets | 14 | 838 | 893 | 90 | 96 |
| | | <u>1,829</u> | <u>1,887</u> | <u>573</u> | <u>490</u> |
| Current assets | | | | | |
| Trade and other receivables | 15 | 282 | 405 | 3,726 | 2,347 |
| Cash and cash equivalents | 16 | 329 | 330 | - | - |
| | | <u>611</u> | <u>735</u> | <u>3,726</u> | <u>2,347</u> |
| Total assets | | <u>2,440</u> | <u>2,622</u> | <u>4,299</u> | <u>2,837</u> |
| Current liabilities | | | | | |
| Interest-bearing loans and borrowings | 17 | (2,123) | (727) | - | - |
| Trade and other payables | 18 | (2,825) | (2,301) | (68) | (20) |
| Provisions | 20 | (80) | - | - | - |
| | | <u>(5,028)</u> | <u>(3,028)</u> | <u>(68)</u> | <u>(20)</u> |
| Non-current liabilities | | | | | |
| Interest-bearing loans and borrowings | 17 | (1,023) | (2,254) | (100) | (100) |
| Trade and other payables | 18 | (21) | - | - | - |
| | | <u>(1,044)</u> | <u>(2,254)</u> | <u>(100)</u> | <u>(100)</u> |
| Total liabilities | | <u>(6,072)</u> | <u>(5,282)</u> | <u>(168)</u> | <u>(120)</u> |
| Net (liabilities)/assets | | <u>(3,632)</u> | <u>(2,660)</u> | <u>4,131</u> | <u>2,717</u> |

Balance Sheets *(continued)*
At 31 March 2008

| | <i>Note</i> | Group | | Company | |
|--|-------------|----------------|---------|----------------|-------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | £000 | £000 | £000 | £000 |
| Equity attributable to equity holders of the parent | | | | | |
| Share capital | 21 | 954 | 731 | 954 | 731 |
| Share premium | 21 | 3,871 | 2,210 | 3,871 | 2,210 |
| Retained earnings | 21 | (8,457) | (5,601) | (694) | (224) |
| Total equity | | (3,632) | (2,660) | 4,131 | 2,717 |

These financial statements were approved by the Board of directors on 25 June 2008 and were signed on its behalf by:

Stephen M Barnes
Director

James H Newman
Director

The notes on pages 24 to 57 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2008

| | Note | Group | | Company | |
|---|------|--|---|--|---|
| | | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
| Cash flows from operating activities | | | | | |
| Loss for the year | | (2,945) | (2,335) | (559) | (232) |
| <i>Adjustments for:</i> | | | | | |
| Depreciation | | 166 | 126 | - | - |
| Amortisation | | 251 | 162 | - | - |
| Financial income | | (34) | (47) | - | - |
| Financial expense | | 227 | 202 | - | - |
| Loss on sale of property, plant and equipment | | 11 | - | - | - |
| Equity settled share-based payment expenses | | 89 | 8 | - | - |
| Taxation | | 55 | (893) | 6 | (96) |
| | | (2,180) | (2,777) | (553) | (328) |
| Decrease/(increase) in trade and other receivables | | 123 | (57) | (1,379) | (2,347) |
| Increase in trade and other payables | | 512 | 677 | 48 | 120 |
| Increase in provisions | | 80 | - | - | - |
| Change in deferred government grant | | (2) | - | - | - |
| Purchase of subsidiary for share for share exchange | | - | - | - | (386) |
| | | (1,467) | (2,157) | (1,884) | (2,941) |
| Interest paid | | (1) | (1) | - | - |
| Net cash from operating activities | | (1,468) | (2,158) | (1,884) | (2,941) |
| Cash flows from investing activities | | | | | |
| Proceeds from sale of property, plant and equipment | 7 | 5 | - | - | - |
| Interest received | | 34 | 47 | - | - |
| Acquisition of subsidiary, net of cash acquired | 2 | - | 211 | - | - |
| Acquisition of property, plant and equipment | 11 | (100) | (393) | - | - |
| Acquisition of other intangible assets | 12 | (331) | (382) | - | - |
| Net cash from investing activities | | (392) | (517) | - | - |
| Cash flows from financing activities | | | | | |
| Proceeds from the issue of share capital (net of costs) | 21 | 1,884 | 2,655 | 1,884 | 2,941 |
| Repayment of borrowings | | (50) | (50) | - | - |
| Proceeds from the receipt of government grants | | 25 | - | - | - |
| Advance of loans | | - | 70 | - | - |
| Net cash from financing activities | | 1,859 | 2,675 | 1,884 | 2,941 |
| Net decrease in cash and cash equivalents | | (1) | - | - | - |
| Cash and cash equivalents at 1 April | | 330 | 330 | - | - |
| Cash and cash equivalents at 31 March | 16 | 329 | 330 | - | - |

The notes on 24 to 57 form part of these financial statements.

Statement of Changes in Shareholders' Equity For the year ended 31 March 2008

Group

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Total equity £000 |
|---|--------------------------|--------------------------|------------------------------|-------------------------|
| Balance at 1 April 2006 | 286 | - | (3,274) | (2,988) |
| Total recognised income and expense | - | - | (2,335) | (2,335) |
| Equity-settled share based payment transactions | - | - | 8 | 8 |
| Equity shares issued in the year | 445 | - | - | 445 |
| Premium on shares issued in the year | - | 2,567 | - | 2,567 |
| Costs on issue of shares | - | (357) | - | (357) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2007 | 731 | 2,210 | (5,601) | (2,660) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Balance at 1 April 2007 | 731 | 2,210 | (5,601) | (2,660) |
| Total recognised income and expense | - | - | (2,945) | (2,945) |
| Equity-settled share based payment transactions | - | - | 89 | 89 |
| Equity shares issued in the year | 223 | - | - | 223 |
| Premium on shares issued in the year | - | 1,778 | - | 1,778 |
| Costs on issue of shares | - | (117) | - | (117) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2008 | 954 | 3,871 | (8,457) | (3,632) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Company

| | Share capital £000 | Share premium £000 | Retained earnings £000 | Total parent equity £000 |
|---|--------------------------|--------------------------|------------------------------|-----------------------------------|
| Balance at 1 April 2006 | - | - | - | - |
| Total recognised income and expense | - | - | (232) | (232) |
| Equity-settled share based payment transactions | - | - | 8 | 8 |
| Equity shares issued in the year | 731 | - | - | 731 |
| Premium on shares issued in the year | - | 2,567 | - | 2,567 |
| Costs on issue of shares | - | (357) | - | (357) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2007 | 731 | 2,210 | (224) | 2,717 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Balance at 1 April 2007 | 731 | 2,210 | (224) | 2,717 |
| Total recognised income and expense | - | - | (559) | (559) |
| Equity-settled share based payment transactions | - | - | 89 | 89 |
| Equity shares issued in the year | 223 | - | - | 223 |
| Premium on shares issued in the year | - | 1,778 | - | 1,778 |
| Costs on issue of shares | - | (117) | - | (117) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2008 | 954 | 3,871 | (694) | 4,131 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

The notes on 24 to 57 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 s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 April 2006 for the purposes of the transition to Adopted IFRSs.

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:

IAS 1 Presentation of financial statements:

A revised presentation

IFRS 2 Share-based payment:

Vesting conditions and cancellations

IFRS 8* Operating segments

IAS23 Borrowing costs

IAS 27 Consolidated and separate financial statements

IFRS 3 Business combinations

IAS 32 and IAS 1 Puttable financial instruments and obligations arising on liquidation

IFRS 1 and IAS 27 Cost of an investment in a subsidiary, jointly controlled entity or associate

Notes (continued)

1 Accounting policies (continued)

New IFRS and amendments to IAS and interpretations not applied (continued)

International Financial Reporting Interpretations Committee

IFRIC 11* IFRS 2: Group and Treasury share transactions

IFRIC 12 Service Concession Arrangements

IFRIC 13 Customer loyalty programmes

IFRIC 14 IAS 19 The limit on a defined benefit asset, minimum funding requirements and their interaction

* 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.

IFRS 8 is a standard that may increase the amount of disclosure and this will be considered when preparing the financial statements for the year ending 31 March 2009.

Transition to Adopted IFRSs

Both the Group and the Company are preparing their financial statements in accordance with Adopted IFRS for the first time and consequently both have applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 26.

IFRS 1 permits those companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Group has taken advantage of the following exemptions:

- Share based payments – the Group has opted to apply IFRS 2 'Share Based Payments' only to equity settled share based awards granted on or after 7 November 2002, which have not yet been vested by the date of transition to IFRS on 1 April 2006.

Measurement convention

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

The directors note that the Group has net liabilities, net current liabilities and sustained trading losses in the year.

The majority shareholder has provided the Board of directors with a written undertaking to not seek repayments in accordance with the terms and conditions of his loan agreements until such time as the Group is cash flow positive or their is a fundamental change in the share ownership of the Group.

On the basis of this undertaking, the directors have reviewed the cash projections, funding arrangements and the nature and extent of shareholder support for the next 12 months and the foreseeable future, and believe that the Company and Group can operate within these arrangements and facilities. Accordingly they believe the going concern assumption to be an appropriate basis for the preparation of the financial statements.

Notes (continued)

1 Accounting policies (continued)

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.

Reverse acquisition

The Company was incorporated on 21 March 2006 as Cobco 762 plc and changed its name to Infoserve Group plc on 11 April 2006. On 11 April 2006 the Company acquired the entire share capital of Infoserve Limited. On 23 June 2006, the Company was admitted to the Alternative Investment Market.

Under IFRS 3, 'Business Combinations', this has been accounted for as a reverse acquisition. Although the consolidated financial statements have been prepared in the name of the legal parent, the Company, they are in substance a continuation of the consolidated financial statements of the legal subsidiary, Infoserve Limited. The following accounting treatment has been applied in respect of the reverse acquisition:

- (a) The assets and liabilities of the legal subsidiary, Infoserve Limited, are recognised and measured in the consolidated financial statements at the pre combined carrying amounts, without restatement to fair value.
- (b) The retained loss and other equity balances recognised in the consolidated financial statements reflect the retained earnings and other equity balances of Infoserve Limited immediately before the business combination.

The Company had no significant assets, liabilities or contingent liabilities of its own at the time that the acquisition took effect and no cash consideration was paid in respect of the business combination.

Transaction costs of equity transactions relating to the issue of the Company's shares are accounted for as a deduction from equity.

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 income statement. 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)

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.

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:

- Note 18 - Deferred income - Relates to sales invoiced for which the revenue has yet to be recognised.
- Note 14 - Deferred tax assets – Represents the extent to which future profits are expected to be offset by losses in the foreseeable future.
- Note 19 - Measurement of share-based payments - The fair value of employee share options is measured using the Black Scholes model.
- Note 20 - Provisions and contingencies (Onerous leases) – the estimate of excess charges due to non-utilisation of property.

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.

Notes (continued)

1 Accounting policies (continued)

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 income statement 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
- motor vehicles 25% per annum straight line
- computer equipment 33.3% per annum straight line

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 income statement 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 under construction (3 years when complete)
- website development costs 4 years

Investments

Investments held as fixed assets are stated at cost less provision for any impairment.

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 statement of cash flows.

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 income statement.

Notes *(continued)*

1 Accounting policies *(continued)*

Calculation of recoverable amount

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.

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 with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

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

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

Share-based payment transactions (since 1 April 2006)

The 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.

Where the Company grants options over its own shares to the employees of its subsidiaries it recognises, in its 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.

Provisions

A provision is recognised in the balance sheet 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.

Notes (continued)

1 Accounting policies (continued)

Revenue

Revenue represents the amounts derived from the provision of services during the year stated net of Value Added Tax.

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 a fixed percentage of new customer sales at the point of sale to reflect the cost of acquiring the customer and producing the advert. The balance is spread evenly over the agreed initial term. Renewal revenues are spread evenly over the term of the agreement.

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

Expenses

Operating lease payments

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

Net financing costs

Net financing costs comprise interest payable and interest receivable on funds invested that are recognised in the income statement.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Taxation

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

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

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of 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.

Notes (continued)

2 Acquisition of subsidiaries

On 11 April 2006, the Group acquired the entire issued share capital of Infoserve Limited by way of a share for share exchange. As the shareholders of Infoserve Limited have control of the legal parent, in accordance with IFRS 3 'Business Combinations' the transaction has been accounted for as a reverse acquisition. Consequently, although the financial statements are prepared in the name of the legal parent, they are a continuation of those of the legal subsidiary with its assets and liabilities measured and recognised in the consolidated financial statements at the pre-combination carrying amounts. No goodwill arises on the transaction.

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

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities.

| | Book values and acquisition amounts £000 |
|---|---|
| Acquiree's net assets at the acquisition date: | |
| Property, plant and equipment | 214 |
| Intangible assets | 295 |
| Trade and other receivables | 348 |
| Cash and cash equivalents | 211 |
| Interest-bearing loans and borrowings | (2,691) |
| Trade and other payables | (1,111) |
| | (2,734) |
| Net identifiable liabilities | (2,734) |

3 Segmental information

The directors consider that the Group only has one business segment being the provision of e-marketing services, other income is ancillary and does not constitute a segment in its own right. The turnover, operating loss and net liabilities of the Group are attributable to the one class of business.

A geographical analysis of turnover is given below:

| | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
|----------------|--|--|
| United Kingdom | 4,643 | 3,761 |
| Europe | 8 | 2 |
| | 4,651 | 3,763 |

Notes (continued)

4 Expenses and auditors' remuneration

Included in loss are the following:

| | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
|--|--|--|
| Onerous lease provision | 80 | - |
| Amortisation of intangible assets | 251 | 162 |
| Depreciation of property, plant and equipment – owned assets | 166 | 126 |
| Operating lease costs – land and buildings | 323 | 277 |
| Release of government grant | 2 | - |
| | ===== | ===== |

Auditors' remuneration:

| | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
|--|--|--|
| Audit of these financial statements | 13 | 15 |
| Amounts receivable by auditors and their associates in respect of: | | |
| Audit of financial statements of subsidiaries pursuant to legislation | | |
| Other services pursuant to such legislation | 4 | - |
| Other services relating to taxation | 3 | 2 |
| All other services in respect of the acquisition of Infoserve Limited and the flotation of the Group | - | 54 |
| | ===== | ===== |

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.

The comparative figures relate to Chadwick LLP, the previous auditors.

5 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 | | Number of employees | |
|----------------------------------|-------------------------------------|--|-------------------------------------|--|
| | Group | | Company | |
| | Year ended 31 March 2008 | Period from 21 March 2006 to 31 March 2007 | Year ended 31 March 2008 | Period from 21 March 2006 to 31 March 2007 |
| Management | 6 | 8 | 6 | 5 |
| Key account managers and support | 15 | 5 | - | - |
| Telesales and support | 128 | 125 | - | - |
| Head office | 40 | 42 | - | - |
| | ===== | ===== | ===== | ===== |
| | 189 | 180 | 6 | 5 |

Notes (continued)

5 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

| | Group | | Company | |
|------------------------------------|-------------------------------------|--|-------------------------------------|--|
| | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
| Wages and salaries | 4,070 | 3,960 | 413 | 238 |
| Share based payments (see note 19) | 89 | 8 | - | - |
| Social security costs | 391 | 392 | 44 | 28 |
| Other pension costs | 42 | 25 | 42 | 25 |
| | <u>4,592</u> | <u>4,385</u> | <u>499</u> | <u>291</u> |

6 Directors' remuneration

| | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
|---|-------------------------------------|--|
| Directors' emoluments | 349 | 308 |
| Company contributions to money purchase pension plans | 42 | 25 |
| Share based payments | 44 | - |
| | <u>435</u> | <u>358</u> |

The aggregate of emoluments of the highest paid director was £109,765 (2007: £103,433) and company pension contributions of £15,800 (2007: £11,583) were made to a money purchase scheme on his behalf.

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

| | Number of options | | Exercise price £ |
|--------------|---------------------|-------------------|---------------------|
| | At start of year | At end of year | |
| J H Newman | 9,000 | 9,000 | 0.25 |
| A R Thirkill | 3,000 | 3,000 | 0.25 |
| D C Balbi | 120,000 | 120,000 | 0.30 |
| D C Balbi | - | 60,000 | 0.195 |
| D C Balbi | - | 145,000 | 0 |
| J H Newman | - | 150,000 | 0.285 |
| A R Thirkill | - | 120,000 | 0.285 |

For further details of the options, refer to note 19.

| | Number of directors 2008 | 2007 |
|--|-----------------------------|----------|
| Retirement benefits are accruing to the following number of directors under: Money purchase schemes | <u>3</u> | <u>2</u> |

Notes (continued)

7 Finance income and expense

| | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
|--|--|--|
| Bank interest receivable | 34 | 47 |
| Financial income | <u>34</u> | <u>47</u> |
| Interest payable on loans and borrowings | 217 | 202 |
| Interest on shares classified as a liability | 10 | - |
| Financial expenses | <u>227</u> | <u>202</u> |

8 Taxation

Recognised in the income statement

| | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
|---|--|--|
| <i>Deferred tax</i> | | |
| Effect of change in tax rate | (60) | - |
| Origination and reversal of temporary differences | 5 | 893 |
| Total tax in income statement | <u>(55)</u> | <u>893</u> |

Reconciliation of effective tax rate

| | Year ended 31 March 2008 £000 | Period from 21 March 2006 to 31 March 2007 £000 |
|--|--|--|
| Loss for the year | (2,945) | (2,335) |
| Total tax (expense)/credit | (55) | 893 |
| Loss excluding taxation | <u>(2,890)</u> | <u>(3,228)</u> |
| Tax using the UK corporation tax rate of 30% (2007: 30%) | (867) | (968) |
| Non deductible expenses | 8 | 10 |
| Effect of tax losses not recognised | 969 | 65 |
| Change in tax rate | (60) | - |
| Origination and reversal | 5 | - |
| Total tax (expense)/credit | <u>(55)</u> | <u>893</u> |

The statutory tax rate changed on 1 April 2008 from 30% to 28%. The deferred tax asset has been restated at the new rate, resulting in a decrease of £60,000.

Notes *(continued)*

9 Earnings per share

The calculation of earnings per share is based upon the loss after taxation of £2,945,465 (2007: £2,334,381) divided by 18,162,494 (2007: 12,516,101), being the weighted average number of ordinary shares in issue during the year. Share options in issue did not have a dilutive impact on the loss per share calculation.

| | Year ended 31 March 2008 | Period from 21 March 2006 to 31 March 2007 |
|------------------------------------|-------------------------------------|--|
| Basic and diluted loss per share | (16.22p) | (18.65p) |
| Loss per share before amortisation | (14.84p) | (17.35p) |
| | <u> </u> | <u> </u> |

Weighted average number of ordinary shares:

| | Year ended 31 March 2008 | Period from 21 March 2006 to 31 March 2007 |
|--------------------------------------|-------------------------------------|--|
| | 000's | 000's |
| Issued ordinary shares at 1 April | 14,629 | 5,568 |
| Effect of shares issued in June 2006 | - | 6,928 |
| Effect of shares issued in June 2007 | 3,533 | - |
| Effect of share options exercised | - | 20 |
| | <u> </u> | <u> </u> |
| | 18,162 | 12,516 |
| | <u> </u> | <u> </u> |

10 Dividends

The directors propose no dividend to be paid for the year (2007: £nil).

Notes (continued)

11 Property, plant and equipment – Group

| | Land and buildings £000 | Plant and equipment £000 | Total £000 |
|------------------------------------|--|---|-----------------------|
| Cost | | | |
| Balance at 1 April 2006 | 9 | 331 | 340 |
| Additions | 121 | 272 | 393 |
| Disposals | - | (16) | (16) |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2007 | 130 | 587 | 717 |
| | <hr/> | <hr/> | <hr/> |
| Balance at 1 April 2007 | 130 | 587 | 717 |
| Additions | 2 | 98 | 100 |
| Disposals | - | (59) | (59) |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2008 | 132 | 626 | 758 |
| | <hr/> | <hr/> | <hr/> |
| Depreciation and impairment | | | |
| Balance at 1 April 2006 | 9 | 117 | 126 |
| Depreciation charge for the year | 1 | 125 | 126 |
| Disposals | - | (15) | (15) |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2007 | 10 | 227 | 237 |
| | <hr/> | <hr/> | <hr/> |
| Balance at 1 April 2007 | 10 | 227 | 237 |
| Depreciation charge for the year | 8 | 158 | 166 |
| Disposals | - | (42) | (42) |
| | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2008 | 18 | 343 | 361 |
| | <hr/> | <hr/> | <hr/> |
| Net book value | | | |
| At 1 April 2006 | - | 214 | 214 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2007 and 1 April 2007 | 120 | 360 | 480 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2008 | 114 | 283 | 397 |
| | <hr/> | <hr/> | <hr/> |

Refer to note 18 for information on grants received to fund a portion of the plant and equipment additions in the current year.

Notes (continued)

12 Intangible assets – Group

| | Data costs £000 | Website costs £000 | Data management system £000 | Total £000 |
|------------------------------------|----------------------------|-------------------------------|--|-----------------------|
| Cost | | | | |
| Balance at 1 April 2006 | 11 | 477 | - | 488 |
| Additions | 322 | 8 | 52 | 382 |
| | <u>333</u> | <u>485</u> | <u>52</u> | <u>870</u> |
| Balance at 31 March 2007 | 333 | 485 | 52 | 870 |
| | <u>333</u> | <u>485</u> | <u>52</u> | <u>870</u> |
| Balance at 1 April 2007 | 333 | 485 | 52 | 870 |
| Additions | 326 | - | 5 | 331 |
| | <u>659</u> | <u>485</u> | <u>57</u> | <u>1,201</u> |
| Balance at 31 March 2008 | 659 | 485 | 57 | 1,201 |
| Amortisation and impairment | | | | |
| Balance at 1 April 2006 | - | 194 | - | 194 |
| Amortisation for the year | 41 | 121 | - | 162 |
| | <u>41</u> | <u>315</u> | <u>-</u> | <u>356</u> |
| Balance at 31 March 2007 | 41 | 315 | - | 356 |
| | <u>41</u> | <u>315</u> | <u>-</u> | <u>356</u> |
| Balance at 1 April 2007 | 41 | 315 | - | 356 |
| Amortisation for the year | 133 | 118 | - | 251 |
| | <u>174</u> | <u>433</u> | <u>-</u> | <u>607</u> |
| Balance at 31 March 2008 | 174 | 433 | - | 607 |
| Net book value | | | | |
| At 1 April 2006 | 11 | 283 | - | 294 |
| | <u>292</u> | <u>170</u> | <u>52</u> | <u>514</u> |
| At 31 March 2007 and 1 April 2007 | 292 | 170 | 52 | 514 |
| | <u>485</u> | <u>52</u> | <u>57</u> | <u>594</u> |
| At 31 March 2008 | 485 | 52 | 57 | 594 |

The directors consider the data management system to be under construction, consequently no amortisation is currently being charged. Once the asset is complete, it will be amortised over three years.

Amortisation and impairment charge:

The amortisation and impairment charge is recognised in the following line items in the income statement:

| | 2008 £000 | 2007 £000 |
|-------------------------|----------------------|--------------|
| Administrative expenses | 251 | 162 |

Notes (continued)

13 Investment in subsidiary

The Company has the following investment in a subsidiary company:

| | Total £000 |
|---|-----------------------|
| Cost and net book value | |
| Balance at 1 April 2006 | - |
| Acquired in the year | 386 |
| Additions – equity settled share-based payments | 8 |
| | 394 |
| Balance at 31 March 2007 | 394 |
| Balance at 1 April 2007 | 394 |
| Additions – equity settled share-based payments | 89 |
| | 483 |
| Balance at 31 March 2008 | 483 |
| Net book value | |
| At 1 April 2006 | - |
| | 394 |
| At 31 March 2007 and 1 April 2007 | 394 |
| | 483 |
| At 31 March 2008 | 483 |

| Company | Principal activity | Country of incorporation | Class of shares held | Ownership 2008 | 2007 |
|-----------------------|---------------------------------------|--------------------------|-------------------------------|----------------|------|
| 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% |

On 11 April 2006, the Group acquired the entire issued share capital of Infoserve Limited by way of a share for share exchange (refer to note 2).

Notes (continued)

14 Deferred tax assets – Group

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

| | Assets 2008 £000 | 2007 £000 |
|-----------------------------------|---------------------------------|--------------|
| Tax value of loss carried forward | 838 | 893 |
| | <hr/> | <hr/> |
| Tax assets | 838 | 893 |
| | <hr/> <hr/> | <hr/> <hr/> |

Movement in deferred tax during the year:

| | 1 April 2007 £000 | Recognised in income £000 | 31 March 2008 £000 |
|--|----------------------------------|--|-----------------------------------|
| Tax value of loss carried forward utilised | 893 | (55) | 838 |
| | <hr/> | <hr/> | <hr/> |
| | 893 | (55) | 838 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Movement in deferred tax during the prior year:

| | 1 April 2006 £000 | Recognised in income £000 | 31 March 2007 £000 |
|--|-------------------------|---------------------------------|--------------------------|
| Tax value of loss carried forward utilised | - | 893 | 893 |
| | <hr/> | <hr/> | <hr/> |
| | - | 893 | 893 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Unrecognised deferred tax asset

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

| | 2008 £000 | 2007 £000 |
|------------|----------------------|--------------|
| Tax losses | 969 | 65 |
| | <hr/> | <hr/> |

The directors have reviewed projections in considering whether these timing differences will reverse or be utilised in the foreseeable future, when deciding to recognise these deferred tax assets.

Notes (continued)

14 Deferred tax assets – Company

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

| | Assets 2008 £000 | 2007 £000 |
|-----------------------------------|---------------------------------|--------------|
| Tax value of loss carried forward | 90 | 96 |
| | <hr/> | <hr/> |
| Tax assets | 90 | 96 |
| | <hr/> <hr/> | <hr/> <hr/> |

Movement in deferred tax during the year:

| | 1 April 2007 £000 | Recognised in income £000 | 31 March 2008 £000 |
|--|-------------------------|---------------------------------|--------------------------|
| Tax value of loss carried forward utilised | 96 | (6) | 90 |
| | <hr/> | <hr/> | <hr/> |
| | 96 | (6) | 90 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Movement in deferred tax during the prior year:

| | 1 April 2006 £000 | Recognised in income £000 | 31 March 2007 £000 |
|--|-------------------------|---------------------------------|--------------------------|
| Tax value of loss carried forward utilised | - | 96 | 96 |
| | <hr/> | <hr/> | <hr/> |
| | - | 96 | 96 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Unrecognised deferred tax asset

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

| | 2008 £000 | 2007 £000 |
|------------|----------------------|--------------|
| Tax losses | 155 | - |
| | <hr/> <hr/> | <hr/> <hr/> |

The directors have reviewed projections in considering whether these timing differences will reverse or be utilised in the foreseeable future, when deciding to recognise these deferred tax assets.

Notes (continued)

15 Trade and other receivables

| | Group | | Company | |
|---------------------------------|--------------|-------------|----------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 |
| Due from subsidiary undertaking | - | - | 3,722 | 2,336 |
| Trade receivables | 20 | 146 | - | - |
| Prepayments and accrued income | 252 | 39 | 4 | 1 |
| Other receivables | 10 | 220 | - | 10 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 282 | 405 | 3,726 | 2,347 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

At 31 March 2008 trade receivables are shown net of an allowance for doubtful debts of £24,680 (2007: £22,765) arising from a provision for potential non-payment of debts.

16 Cash and cash equivalents

| | Group | | Company | |
|--|--------------|-------|----------------|-------|
| | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 |
| Cash and cash equivalents per balance sheet and per cash flow statements | 329 | 330 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |

17 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 24.

| | Group | | Company | |
|--|--------------|-------------|----------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | £000 | £000 | £000 | £000 |
| Non-current liabilities | | | | |
| D R Hood loan account | 923 | 2,154 | - | - |
| Shares classified as a liability (note 21) | 100 | 100 | 100 | 100 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 1,023 | 2,254 | 100 | 100 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Current liabilities | | | | |
| Current portion of D R Hood loan account | 2,123 | 727 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 2,123 | 727 | - | - |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Notes (continued)

17 Interest-bearing loans and borrowings (continued)

Terms and debt repayment schedule

| | Currency | Nominal interest rate | Year of maturity | Face value 2008 £000 | Carrying amount 2008 £000 | Face value 2007 £000 | Carrying amount 2007 £000 |
|----------------------------------|----------|-----------------------|------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| D R Hood loan | £ | Linked to base rate | 2010 | 3,046 | 3,046 | 2,881 | 2,881 |
| Shares classified as a liability | £ | 5% per annum | N/A | 100 | 100 | 100 | 100 |
| | | | | 3,146 | 3,146 | 2,981 | 2,981 |

18 Trade and other payables

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| Trade payables | 513 | 472 | - | - |
| Non-trade payables and accrued expenses | 1,113 | 967 | 68 | 20 |
| Deferred income | 1,197 | 862 | - | - |
| Deferred government grants | 2 | - | - | - |
| Current liabilities | 2,825 | 2,301 | 68 | 20 |
| Deferred government grants | 21 | - | - | - |
| Non-current liabilities | 21 | - | - | - |

Included within trade and other payables is £45,000 (2007: £nil) for the Group and £nil (2007: £nil) for the Company expected to be settled in more than 12 months.

Included within accrued expenses is £10,000 (2007: £nil) in respect of accrued interest on shares classified as a liability. This amount is payable when the Company has distributable profits.

During the year, 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 Income Statement.

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

Notes (continued)

19 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 £42,425 (2007: £24,523).

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. Ordinarily, 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, however there may be exceptions from time to time as in the grant to D C Balbi on 17 March 2008.

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

The Company granted options over 145,000 ordinary shares of 5p each to D C Balbi through the Enterprise Management Incentive Scheme. The share options are exercisable at nil consideration and will be satisfied by the transfer of ordinary shares from three of the Company's directors: S M Barnes, D I J Oliver and D R Hood. There are no time limits attached to the exercise of these options.

The Company created a warrant instrument for W H Ireland to subscribe at the Placing Price for new ordinary shares up to the value of 2% of the fully diluted ordinary share capital of the Company immediately following Admission at any time during the three years following the date of Admission.

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 | 39,800 | 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 D C Balbi granted by parent on 16 January 2008 | 60,000 | Continuing employment | 2011-2018 |
| Equity settled award to D C Balbi granted by parent on 17 March 2008 | 145,000 | Continuing employment | No time limit |
| Equity settled award to J H Newman granted by parent on 18 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 |

Notes (continued)

19 Employee benefits (continued)

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

| | Weighted average exercise price 2008 pence | Number of options 2008 number | Weighted average exercise price 2007 pence | Number of options 2007 number |
|--|---|--|--|--|
| Outstanding at the beginning of the period | 35.77 | 569,249 | - | - |
| Forfeited during the period | 32.77 | (81,382) | 26.45 | (72,459) |
| Exercised during the period | - | - | 25.00 | (48,529) |
| Granted during the period | 23.71 | 677,324 | 34.03 | 690,237 |
| | <u>28.97</u> | <u>1,165,191</u> | <u>35.77</u> | <u>569,249</u> |
| Outstanding at the end of the period | <u>28.97</u> | <u>1,165,191</u> | <u>35.77</u> | <u>569,249</u> |
| Exercisable at the end of the period | <u>27.59</u> | <u>439,909</u> | <u>41.15</u> | <u>294,909</u> |

The options outstanding at the year end have an exercise price in the range of 0p to 41.15p and a weighted average contractual life of 3.48 years.

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 | 16 January 2008 |
|---|--------------|-------------------|-----------------|
| Fair value at measurement date | | | |
| Weighted average share price - pence | 50 | 38 | 19.5 |
| Exercise price - pence | 40 | 38 | 19.5 |
| Expected volatility (expressed as % used in the modelling under Black Scholes model) | 35.23% | 36.70% | 40.25% |
| Option life (expressed as weighted average life in years used in the modelling under Black Scholes model) | 3.5 | 6.5 | 6.5 |
| Expected dividends | - | - | - |
| Risk-free interest rate (based on national government bonds) | 5% | 5% | 5% |
| | | | |
| Grant date | | 17 March 2008 | 18 March 2008 |
| Fair value at measurement date | | | |
| Weighted average share price - pence | | 28.5 | 28.5 |
| Exercise price - pence | | 0 | 28.5 |
| Expected volatility (expressed as % used in the modelling under Black Scholes model) | | 41.26% | 41.28% |
| 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.

Notes (continued)

19 Employee benefits (continued)

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

| | 2008 £000 | 2007 £000 |
|--|-------------------|-------------------|
| Equity settled share based payment expense | 89 | 8 |
| | <u> </u> | <u> </u> |

20 Provisions

| Group | Total £000 |
|--|-----------------------|
| Balance at 1 April 2007 | - |
| Provision made during the year – onerous lease | 80 |
| | <u> </u> |
| Balance at 31 March 2008 | 80 |
| | <u> </u> |
| Non-current | - |
| Current | 80 |
| | <u> </u> |
| | 80 |
| | <u> </u> |

The onerous lease provision is the estimated liability based on future plans and current property market conditions.

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.

Notes (continued)

21 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 2006 | 286 | - | (3,274) | (2,988) |
| Total recognised income and expense | - | - | (2,335) | (2,335) |
| Equity-settled share based payment transactions | - | - | 8 | 8 |
| Equity shares issued in the year | 445 | - | - | 445 |
| Premium on shares issued in the year | - | 2,567 | - | 2,567 |
| Costs on issue of shares | - | (357) | - | (357) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2007 | 731 | 2,210 | (5,601) | (2,660) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Balance at 1 April 2007 | 731 | 2,210 | (5,601) | (2,660) |
| Total recognised income and expense | - | - | (2,945) | (2,945) |
| Equity-settled share based payment transactions | - | - | 89 | 89 |
| Equity shares issued in the year | 223 | - | - | 223 |
| Premium on shares issued in the year | - | 1,778 | - | 1,778 |
| Costs on issue of shares | - | (117) | - | (117) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2008 | 954 | 3,871 | (8,457) | (3,632) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

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 2006 | - | - | - | - |
| Total recognised income and expense | - | - | (232) | (232) |
| Equity-settled share based payment transactions | - | - | 8 | 8 |
| Equity shares issued in the year | 731 | - | - | 731 |
| Premium on shares issued in the year | - | 2,567 | - | 2,567 |
| Costs on issue of shares | - | (357) | - | (357) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2007 | 731 | 2,210 | (224) | 2,717 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Balance at 1 April 2007 | 731 | 2,210 | (224) | 2,717 |
| Total recognised income and expense | - | - | (559) | (559) |
| Equity-settled share based payment transactions | - | - | 89 | 89 |
| Equity shares issued in the year | 223 | - | - | 223 |
| Premium on shares issued in the year | - | 1,778 | - | 1,778 |
| Costs on issue of shares | - | (117) | - | (117) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Balance at 31 March 2008 | 954 | 3,871 | (694) | 4,131 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

As permitted by Section 230 of the Companies Act, the Income Statement of the parent company is not presented as part of these accounts.

Notes (continued)

21 Capital and reserves (continued)

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

| <i>Reserve</i> | <i>Description and purpose</i> |
|-------------------|--|
| Retained earnings | Cumulative net gains and losses recognised earnings in the consolidated income statement. |
| 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 | |
|---|--|--------------|---------------------------|--------------|
| | 2008 £000 | 2007 £000 | 2008 £000 | 2007 £000 |
| At 1 April 2007 | 100 | 100 | 731 | - |
| Issued for cash | - | - | 223 | 731 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 March 2008 – fully paid | 100 | 100 | 954 | 731 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| | | | 2008 | 2007 |
| | | | £000 | £000 |
| <i>Authorised</i> | | | | |
| 30,000,000 Ordinary shares of 5p each | | | 1,500 | 1,500 |
| 150,000 Cumulative preference shares of £1 each | | | 150 | 150 |
| | | | <hr/> | <hr/> |
| | | | 1,650 | 1,650 |
| | | | <hr/> <hr/> | <hr/> <hr/> |
| <i>Allotted, called up and fully paid</i> | | | | |
| 19,073,441 Ordinary shares of 5p each | | | 954 | - |
| 14,628,996 Ordinary shares of 5p each | | | - | 731 |
| 100,000 Cumulative preference shares of £1 each | | | 100 | 100 |
| | | | <hr/> | <hr/> |
| | | | 1,054 | 831 |
| | | | <hr/> <hr/> | <hr/> <hr/> |
| Shares classified as liabilities | | | 100 | 100 |
| Shares classified in shareholders funds | | | 954 | 731 |
| | | | <hr/> | <hr/> |
| | | | 1,054 | 831 |
| | | | <hr/> <hr/> | <hr/> <hr/> |

On 15 June 2007, the company issued 4,444,445 ordinary shares of 5p each for a cash consideration of 45p per share.

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.

Notes *(continued)*

21 Capital and reserves *(continued)*

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.

22 Operating lease

Non-cancellable operating lease rentals are payable as follows:

| Group | 2008 | 2007 |
|----------------------------|----------------------------|----------------------------|
| | £000 | £000 |
| Less than one year | 284 | 208 |
| Between one and five years | 986 | 1,105 |
| More than five years | 2,135 | 2,382 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |
| | 3,405 | 3,695 |
| | <hr style="width: 100%;"/> | <hr style="width: 100%;"/> |

During the year £322,871 was recognised as an expense in the income statement in respect of operating leases (2007: £277,390).

23 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 6. 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 these 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 66.27 per cent (2007: 86.42 per cent) of the voting shares of the Company.

At 31 March 2008, an amount of £2,661,552 (2007: £2,711,552) was owed by Infoserve Limited to D R Hood, a director and principal shareholder of Infoserve Group plc. D R Hood has given an undertaking to the Board not to seek repayment of his loan until such time as the Group is cash flow positive or there is a fundamental change in the share ownership of the Group (refer to note 1 for further details). Interest is charged at a rate of 2.5% above Barclays Bank plc base rate. Interest charged on the loan during the year amounted to £215,935 (2007: £200,592) and £385,046 remained unpaid at the year end (2007: £169,110) and is included within trade and other payables.

Notes (continued)

23 Related parties (continued)

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 administrative expenses incurred from Amerdale Investments LLP amounted to £165,964 (2007: £nil) and the amount owed by Infoserve Limited at the balance sheet date was £75,911 (2007: £nil). 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 £35,017 (2007: £34,104) to and purchases of £62,353 (2007: £69,976) from Multiflight Limited, a company in which D R Hood is a director and principal shareholder. At the balance sheet date Infoserve Limited owed £19,402 (2007: £nil) to Multiflight Limited.

The Company has no related party transactions.

24 Financial instruments

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 following recommendations from the Finance Director. 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.

The major shareholder has provided the Board of directors with a written undertaking to not seek repayments in accordance with the terms and conditions of his loan agreements until such time as the Group is cashflow positive or there is a fundamental change in the share ownership of the Group.

Maturity of financial liabilities

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

| | On demand | Long term | | |
|--------------------|------------------|------------------|-----------|-----------|
| | 2008 | borrowing | On demand | Long term |
| | £000 | 2008 | 2007 | borrowing |
| | | £000 | £000 | 2007 |
| | | | | £000 |
| Less than one year | - | 2,123 | - | 727 |
| 1 to 2 years | - | 923 | - | 1,231 |
| 2 to 5 years | - | - | - | 923 |
| Over 5 years | - | 100 | - | 100 |

Notes (continued)

24 Financial instruments (continued)

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.

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%. The Group's exposure to interest risk are 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 £13,000.

Credit risk

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 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.

| | Gross debtors £000 | Provision £000 | Due in 30 days £000 | 30 –60 days £000 | Greater than 60 days £000 |
|----------------------|-----------------------|-------------------|------------------------|---------------------|---------------------------------|
| 31 March 2008 | 45 | (25) | 15 | 3 | 27 |
| 31 March 2007 | 169 | (23) | 36 | 39 | 94 |

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.

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.

There were no changes to the Group's capital management during the year. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirement.

25 Capital commitments

The Group had no capital commitments at 31 March 2008 (2007: £nil).

Notes *(continued)*

26 Explanation of transition to Adopted IFRSs – Group

As stated in note 1, these are the Group's first consolidated financial statements prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 31 March 2008, the comparative information presented in these financial statements for the year ended 31 March 2008 and in the preparation of an opening IFRS balance sheet at 1 April 2006 (the Group's date of transition). The effective date of acquisition has been taken as 1 April 2006 and not 21 March 2006, as the Company did not trade in that period. In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Change in accounting policy –UK GAAP restatement

Historically the Group has recognised a fixed proportion of its advertising revenue at the point of sale and spread the remainder of the revenue over the term of the agreement. Following a review, the following changes have been made:

New business online advertising – no change

Renewals of online advertising – spread evenly over the term of the agreement as this more accurately matches revenues with costs

The change to the treatment of renewals has the following impact on the financial results of the Group:

| | Period from 21 March 2006 to 31 March 2007 £000 | Year ended 31 March 2006 £000 |
|----------------------------|--|-------------------------------------|
| Decrease revenue | (252) | (131) |
| Increased deferred revenue | 252 | 131 |
| Increase losses | 252 | 131 |

Notes (continued)

26 Explanation of transition to Adopted IFRSs – Group (continued)

Reconciliation of equity

| | Note | 1 April 2006 | | | | |
|--|------|-----------------|---|-----------------------------|---|--------------------------|
| | | UK GAAP £000 | Restatement under UK GAAP £000 | UK GAAP Restated £000 | Effect of transition to Adopted IFRSs £000 | Adopted IFRSs £000 |
| Non-current assets | | | | | | |
| Property, plant and equipment | | 214 | - | 214 | - | 214 |
| Intangible assets | | 294 | - | 294 | - | 294 |
| | | <u>508</u> | <u>-</u> | <u>508</u> | <u>-</u> | <u>508</u> |
| Current assets | | | | | | |
| Trade and other receivables | | 348 | - | 348 | - | 348 |
| Cash and cash equivalents | | 211 | - | 211 | - | 211 |
| | | <u>559</u> | <u>-</u> | <u>559</u> | <u>-</u> | <u>559</u> |
| Total assets | | <u>1,067</u> | <u>-</u> | <u>1,067</u> | <u>-</u> | <u>1,067</u> |
| Current liabilities | | | | | | |
| Interest-bearing loans and borrowings | | (2,730) | - | (2,730) | - | (2,730) |
| Trade and other payables | a, b | (1,072) | (131) | (1,203) | (22) | (1,225) |
| | | <u>(3,802)</u> | <u>(131)</u> | <u>(3,933)</u> | <u>(22)</u> | <u>(3,955)</u> |
| Non-current liabilities | | | | | | |
| Interest-bearing loans and borrowings | | (100) | - | (100) | - | (100) |
| | | <u>(100)</u> | <u>-</u> | <u>(100)</u> | <u>-</u> | <u>(100)</u> |
| Total liabilities | | <u>(3,902)</u> | <u>(131)</u> | <u>(4,033)</u> | <u>(22)</u> | <u>(4,055)</u> |
| Net liabilities | | <u>(2,835)</u> | <u>(131)</u> | <u>(2,966)</u> | <u>(22)</u> | <u>(2,988)</u> |
| Equity attributable to equity holders of the parent | | | | | | |
| Share capital | | 286 | - | 286 | - | 286 |
| Retained earnings | a, b | (3,121) | (131) | (3,252) | (22) | (3,274) |
| Total equity | | <u>(2,835)</u> | <u>(131)</u> | <u>(2,966)</u> | <u>(22)</u> | <u>(2,988)</u> |

Notes to the reconciliation of equity

a) Employee benefits £22,000 – Holiday Pay

Under UK GAAP, the Group's policy was not to provide for holiday pay. Under IFRS, it is a requirement to provide for holiday pay.

b) Revenue recognition £131,000 – Refer to page 51 for further details of this adjustment.

Notes (continued)

26 Explanation of transition to Adopted IFRSs – Group (continued)

The restatement under UK GAAP relates to a change in accounting policy for revenue recognition and is explained on page 51. This change impacts on the results under UK GAAP and IFRS equally.

Reconciliation of equity

| | | 31 March 2007 | | | | |
|--|----------------------|-----------------|---|-----------------------------|---|--------------------------|
| | Note | UK GAAP £000 | Restatement under UK GAAP £000 | UK GAAP Restated £000 | Effect of transition to Adopted IFRSs £000 | Adopted IFRSs £000 |
| Non-current assets | | | | | | |
| Property, plant and equipment | | 480 | - | 480 | - | 480 |
| Intangible assets | <i>a, e</i> | 3,480 | 131 | 3,611 | (3,097) | 514 |
| Deferred tax assets | <i>b</i> | 703 | - | 703 | 190 | 893 |
| | | <u>4,663</u> | <u>131</u> | <u>4,794</u> | <u>(2,907)</u> | <u>1,887</u> |
| Current assets | | | | | | |
| Trade and other receivables | | 405 | - | 405 | - | 405 |
| Cash and cash equivalents | | 330 | - | 330 | - | 330 |
| | | <u>735</u> | <u>-</u> | <u>735</u> | <u>-</u> | <u>735</u> |
| Total assets | | <u>5,398</u> | <u>131</u> | <u>5,529</u> | <u>(2,907)</u> | <u>2,622</u> |
| Current liabilities | | | | | | |
| Interest-bearing loans and borrowings | | (727) | - | (727) | - | (727) |
| Trade and other payables | <i>c, d, e</i> | (1,879) | (383) | (2,262) | (39) | (2,301) |
| | | <u>(2,606)</u> | <u>(383)</u> | <u>(2,989)</u> | <u>(39)</u> | <u>(3,028)</u> |
| Non-current liabilities | | | | | | |
| Interest-bearing loans and borrowings | | (2,254) | - | (2,254) | - | (2,254) |
| | | <u>(2,254)</u> | <u>-</u> | <u>(2,254)</u> | <u>-</u> | <u>(2,254)</u> |
| Total liabilities | | <u>(4,860)</u> | <u>(383)</u> | <u>(5,243)</u> | <u>(39)</u> | <u>(5,282)</u> |
| Net assets/(liabilities) | | <u>538</u> | <u>(252)</u> | <u>286</u> | <u>(2,946)</u> | <u>(2,660)</u> |
| Equity attributable to equity holders of the parent | | | | | | |
| Share capital | | 731 | - | 731 | - | 731 |
| Share premium | | 2,210 | - | 2,210 | - | 2,210 |
| Retained earnings | <i>a, b, c, d, e</i> | (2,403) | (252) | (2,655) | (2,946) | (5,601) |
| Total equity | | <u>538</u> | <u>(252)</u> | <u>286</u> | <u>(2,946)</u> | <u>(2,660)</u> |

Notes *(continued)*

26 Explanation of transition to Adopted IFRSs – Group *(continued)*

Notes to the reconciliation of equity

a) Business combinations – goodwill

The acquisition of Infoserve Limited by Infoserve Group plc has been treated as a reverse acquisition in accordance with IFRS3. No goodwill has been recognised. The eliminated goodwill of £3,097,000 is included in retained earnings.

b) Deferred tax assets

Under UK GAAP, the Group's deferred tax asset was discounted. Under IFRS this is not permissible, therefore the effect of the discounting of £190,000 has been reversed.

c) Operating lease payments

Under UK GAAP, rent free periods have been spread over the period from the date of grant to the first available break clause in the lease. Under IFRS, rent free periods are amortised over the period from the date of grant to the end of the lease, resulting in a charge of £11,000.

d) Employee benefits – holiday pay

Under UK GAAP, provision for holiday pay is a matter of accounting policy. The Group's policy was not to provide for holiday pay totalling £28,000. Under IFRS, it is a requirement to provide for holiday pay.

e) Revenue recognition – Due to a prior year restatement, the fair value of assets at the date of acquisition has decreased, therefore goodwill on acquisition has increased by £131,000 under UK GAAP. The impact of this restatement on deferred income was £383,000. Refer to page 51 for further details.

Notes (continued)

26 Explanation of transition to Adopted IFRSs – Group (continued)

Reconciliation of loss for the period ended 31 March 2007

| | | | | 2007 | | |
|--|-------------|-------------|-------------------------|-------------|---------------|----------------|
| | Note | UK GAAP | Restatement under UK | UK GAAP | Effect of | Adopted IFRSs |
| | | £000 | GAAP | Restated | transition to | Adopted IFRSs |
| | | | £000 | £000 | £000 | £000 |
| Revenue | <i>e</i> | 4,015 | (252) | 3,763 | - | 3,763 |
| Cost of sales | <i>a</i> | (3,607) | - | (3,607) | (3) | (3,610) |
| | | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Gross profit | | 408 | (252) | 156 | (3) | 153 |
| Administrative expenses | <i>a, b</i> | (3,049) | - | (3,049) | (15) | (3,064) |
| Amortisation of intangible assets | <i>c</i> | (318) | - | (318) | 156 | (162) |
| | | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Operating loss before net financing costs | | (2,959) | (252) | (3,211) | 138 | (3,073) |
| Financial income | | 47 | - | 47 | - | 47 |
| Financial expenses | | (202) | - | (202) | - | (202) |
| | | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net financing costs | | (155) | - | (155) | - | (155) |
| | | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Loss before tax | | (3,114) | (252) | (3,366) | 138 | (3,228) |
| Taxation | <i>d</i> | 703 | - | 703 | 190 | 893 |
| | | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Loss for the year | | (2,411) | (252) | (2,663) | 328 | (2,335) |
| | | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Notes to the reconciliation of loss

- a) Employee benefits – holiday pay
Under UK GAAP, the Group's policy was not to provide for holiday pay. Under IFRS, it is a requirement to provide for holiday pay, resulting in a charge of £7,000.
- b) Operating lease payments
Under UK GAAP, rent free periods have been spread over the period from the date of grant to the first available break clause in the lease. Under IFRS, rent free periods are amortised over the period from the date of grant to the end of the lease, resulting in a charge of £11,000.
- c) Business combinations – goodwill
The acquisition of Infoserve Limited by Infoserve Group plc has been treated as a reverse acquisition in accordance with IFRS3. As a result, no goodwill has been recognised. The eliminated goodwill of £156,000 is included in retained earnings.
- d) Deferred tax assets
Under UK GAAP, the Group's deferred tax asset was discounted. Under IFRS this is not permissible, therefore, the effect of the discounting of £190,000 has been reversed.
- e) Revenue recognition £252,000 – Refer to page 51 for further details of this adjustment.

Explanation of material adjustments to the cash flow statement for 31 March 2007

There are no other material differences, other than to presentation, between the cash flow statement presented under Adopted IFRSs and the cash flow statement presented under UK GAAP.

Notes (continued)

27 Explanation of transition to Adopted IFRSs – Company

Reconciliation of equity at 31 March 2007

| | <i>Note</i> | UK GAAP £000 | Effect of transition to Adopted IFRSs £000 | Adopted IFRSs £000 |
|--|-------------|-----------------|--|-----------------------------------|
| Non-current assets | | | | |
| Investment in subsidiary | | 394 | - | 394 |
| Deferred tax assets | <i>a</i> | - | 96 | 96 |
| | | <hr/> | <hr/> | <hr/> |
| | | 394 | 96 | 490 |
| | | <hr/> | <hr/> | <hr/> |
| Current assets | | | | |
| Trade and other receivables | <i>a</i> | 2,423 | (76) | 2,347 |
| | | <hr/> | <hr/> | <hr/> |
| | | 2,423 | (76) | 2,347 |
| | | <hr/> | <hr/> | <hr/> |
| Total assets | | | | |
| | | 2,817 | 20 | 2,837 |
| | | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Current liabilities | | | | |
| Trade and other payables | | (20) | - | (20) |
| | | <hr/> | <hr/> | <hr/> |
| | | (20) | - | (20) |
| | | <hr/> | <hr/> | <hr/> |
| Non-current liabilities | | | | |
| Interest-bearing loans and borrowings | | (100) | - | (100) |
| | | <hr/> | <hr/> | <hr/> |
| | | (100) | - | (100) |
| | | <hr/> | <hr/> | <hr/> |
| Total liabilities | | | | |
| | | (120) | - | (120) |
| | | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Net assets | | | | |
| | | 2,697 | 20 | 2,717 |
| | | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Equity attributable to equity holders of the parent | | | | |
| Share capital | | 731 | - | 731 |
| Share premium | | 2,210 | - | 2,210 |
| Retained earnings | <i>a</i> | (244) | 20 | (224) |
| | | <hr/> | <hr/> | <hr/> |
| Total equity | | 2,697 | 20 | 2,717 |
| | | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

No reconciliation of equity has been prepared at 1 April 2006. The Company was formed on 21 March 2006 and at 1 April 2006 was dormant. No differences were identified between UK GAAP and IFRS.

Notes *(continued)*

27 Explanation of transition to Adopted IFRSs – Company *(continued)*

Notes to the reconciliation of equity

a) Deferred tax assets

Under UK GAAP, the Company's deferred tax asset was discounted. Under IFRS this is not permissible, therefore, the effect of the discounting has been reversed. Also, under IFRS deferred tax assets are shown within non-current assets.

Reconciliation of loss for the period ended 31 March 2007

| | Note | £000 |
|---|----------|--------------|
| UK GAAP loss after tax | | (244) |
| Reversal of discounting on the deferred tax asset | <i>a</i> | 20 |
| | | <hr/> |
| Adopted IFRS loss after tax | | (224) |
| | | <hr/> <hr/> |

The prior period results covered the period from incorporation on 21 March 2006 to 31 March 2007, however, Infoserve Group plc did not trade between the date of incorporation and 31 March 2006 and therefore for comparative purposes the results represent a full year's trading.

Notes to the reconciliation of loss

a) Deferred tax assets

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

Cash flow statement

Under UK GAAP, the parent company was not required to, and did not, prepare a cash flow statement.