

Infoserve Group plc

Annual report and financial statements

Registered number 05750143

Year ended 31 March 2009

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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 I J Oliver (Operations Director) D C Balbi (Finance Director - Resigned 3 March 2009) M A Riley (Sales Director - Appointed 1 July 2008)
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 2 nd 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 SMEs, to maximise their performance through online marketing.

I am pleased to report a year of good progress, both financially and commercially, with the second half of the year building on the improved performance in the first half.

Results

Turnover for the year increased by approximately 20% to £5.60 million (2008: £4.65 million) and follows a 25% growth the previous year. This growth in turnover was an excellent achievement in a difficult economic climate for much of the Group's customer base but reflected the growing interest in online marketing and local search.

Following on from last year's substantial improvement in productivity per person, this again increased to £54,800 per active sales person from £46,600 last year. As a result, gross margins also improved from 11.4% to 32.4% helped by the introduction of new products, better staff training and higher renewal levels, thus continually increasing the Group's customer base, which should give better transparency of future revenue.

Overheads were well down on the previous year, following the strategic cost review in October 2007, when a substantial amount of overhead expenditure was taken out of the business without affecting the day to day operations. During the second half of the year, a number of actions have been taken by the Board, which will further reduce the ongoing overheads of the business in this current financial year.

As a consequence of the increased sales, better margins and reduced overheads, the operating loss of £812,000 is substantially lower than £2.70 million last year. After taking into account the net interest payable, there was a loss before taxation of £992,000 (2008: £2.89 million).

The loss per share was 5.20p compared to 16.22p in 2008.

Cash and going concern

The improved trading performance has meant that the cash outflow from trading and investment activities in the year has been only £419,000, of which only £108,000 relates to the second half.

However, the Group remains undercapitalised as it has been since the IPO in 2006. Whilst a further £2 million was raised in 2007, the high cost associated with growing the sales team and developing new products has left the Group able to operate at current trading levels but unlikely to be able to continue to grow at its current rate without additional funding.

On an underlying basis the Group is now trading at almost a breakeven EBITDA, with cash outflows on this basis at relatively low levels. All directors and staff have taken pay cuts, very little capital expenditure has been authorised by the Board and other overheads have been reduced to the bare minimum to assist in preserving the short term cash position.

This situation is, however, not sustainable in the longer term if growth is to be achieved. Thus the Board is therefore considering a number of potential financing options including the possibility of raising new capital from existing shareholders and has also commenced discussions with its major shareholder, David Hood about the raising of further funds. Additional funding details are included in the Financial Review on page 7 and the basis of preparation in note 1.

Dividend

The Board is not recommending a dividend as all funds are required for the development of the business (2008 : £nil).

Chairman's Statement *(continued)*

External discussions

On 15 August 2008, the Group made an announcement that it was in early discussions, which may or may not have led to an offer being made for the Group (the "Discussions"). The Group announced on 10 June 2009 that these Discussions had terminated.

Board changes

In July 2008, Mark Riley was appointed to the Board as Sales Director and has been responsible for the significant improvement, not only in sales performance but in the recruitment and training of our sales staff.

In March 2008, we announced that David Balbi, our Finance Director, was leaving the Group to pursue other interests. On behalf of the Board, I would like to thank David for his very valuable contribution to the development of the Group, especially during some difficult trading periods, and wish him well for the future.


The Board is currently searching for a successor and an announcement will be made in due course. To assist the Group through the current situation, the Board has appointed Jonathan Simpson as interim Finance Director. Jonathan is the former Finance Director of Ultralase, a leading UK laser eye surgery provider.

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 and a network of over 120 single industry vertical websites.

The contracts with Yahoo! and Google have given the business a unique position to exploit the ever growing local search market through its close ties with both companies, who represent over 96% of the UK's search and online advertising market.

The Board is confident, that despite the current economic turmoil, it will continue to grow its revenues and customer base and sustain the progress made in the last financial year. The Board is actively considering possible financing options to enable it to achieve these objectives.



James H Newman
Chairman

10 July 2009

Chief Executive's Review

- During the last financial year the background to the market has been coloured by the much-publicised financial turmoil across the world. Despite this, online marketing and advertising in general, and paid-for search in particular have seen continued growth in expenditure and focus.
- Paid-for search accounted for 59.3% of all online advertising in 2008.
- 60% of all online searches appear to be local in nature.
- Traditional media (outdoor, radio, press - black and white and colour, and TV) spend in 2008 is estimated to be 8% down on 2007. Contrasting with this, online advertising grew by 17% in 2008 (World Advertising Research Centre and PwC). Furthermore IAB & PwC expect growth in internet advertising to continue in 2009 albeit at a reduced level.
- The Internet Advertising Bureau estimate online advertising spend in H2 2008 to have overtaken press display's share of total UK advertising for the first time.
- 90% of household consumer spend on goods and services takes place within 20 miles of where individual consumers live or work.
- New figures from ComScore show that the use of online search to find local businesses, products or services grew by 58% last year. By comparison, overall internet searches increased by only 21% in 2008, highlighting that local search continues to drive market growth.
- ComScore also highlighted that 75% of all local searches were non-branded and non-business specific, clearly indicating that most searchers do not have a specific business in mind when they are actively seeking a supplier.

Business developments

We continue to reinforce our position as one of the UK's leading online local search specialists. The Company continued to improve its service levels, product propositions, value for money offering and breadth of product coverage throughout the year.

We continued to closely monitor costs and reduce these wherever possible, and at the same time managed our cash outflows tightly. Strong increased sales per head were the cornerstone of continued revenue growth; these increases were the result of improved disciplines, a greater emphasis and more detailed implementation of training and development and overall product portfolio enhancements. Whilst market share increases are difficult to measure, we believe that the Company has grown in importance within our operating sector. The revenue increases and cost controls together contributed to the achievement of an EBITDA profit for three of the six months in the second half of the financial year.

During the last year we have continued to focus on improving and integrating our systems, and I am pleased that we have gone some way to delivering a complete end-to-end system solution that utilises our business data throughout and culminates in better customer service. Our GEMS bespoke in-house system is now used to collect, collate and store our data, to use that data to deliver intelligent campaigns to our sales executives, to re-populate our data with any updates or orders taken, to populate an online sales tool which provides customer information and access to search traffic statistics, as well as keyword suggestions and an aide-memoire for the sales executive. The system now includes an improved automated credit card transaction and approval process and culminates in a streamlined production technique which makes the final product process more efficient. We are also able to use this for control of Google AdWords campaign management.

We have begun to undertake a series of ongoing email campaigns explaining to SMEs how we can help them build an online presence that will give them a strong return on investment. These campaigns will improve our business model by providing easier commercial targets as people request a call back for further information.

During this year we began offering website optimisation to our SME customers. Our www.city-visitor.com site currently enjoys more than 11 million number 1 positions on the main search engines for searches involving specific keywords and locations, and we have begun to use our search engine optimisation skills for the direct benefit of our SME customers within their own websites. I envisage this area of business growing substantially over the next 2 years.

Chief Executive's Review *(continued)*

Business developments *(continued)*

We continue to work closely with Google and Yahoo! on their respective products in our portfolio, and these two search engine partners, who today account for more than 96% of all UK searches, will continue to be important contributors to our market offering.

We have recently launched our first complete marketing package that covers our complete product range as well as developing the customer's own website and I envisage this 'bundle' package product will become considerably more important over time as we establish ourselves increasingly as a one-stop online marketing support agency for SMEs.

Summary

We cannot ignore the harsh reality of the overall market and our customer base is of course affected by the difficult trading conditions. We will have to be flexible and agile in switching focus away from those business categories most affected by the downturn in order to concentrate resources on growth areas. All indications are that online paid-for local search will continue to spearhead overall growth in online advertising and marketing but we will have to work hard to continue to drive productivity improvements from existing sales executives as well as seeking out further growth.



Stephen M Barnes
Chief Executive
10 July 2009

Financial Review

	2009 £000	2008 £000
Revenue	5,595	4,651
Cost of sales	(3,785)	(4,122)
	<hr/>	<hr/>
Gross profit	1,810	529
Amortisation of intangible assets	(174)	(251)
Administrative expenses	(2,448)	(2,975)
	<hr/>	<hr/>
Operating loss	(812)	(2,697)
Financial income	3	34
Financial expenses	(183)	(227)
	<hr/>	<hr/>
Net financing expense	(180)	(193)
	<hr/>	<hr/>
Loss before tax	(992)	(2,890)
	<hr/> <hr/>	<hr/> <hr/>

Revenue

Revenue for the year has increased by approximately 20% year on year and the performance per sales executive increased from £46,600 to £54,800 a rise of 18% on last year and 71% on the same period two years ago.

Margins

Gross margins have improved from 11% to 32% during the financial year reflecting the increased sales productivity, streamlining of the sales force and cost savings negotiated with key suppliers.

Results

Operating losses have reduced by £1.88 million as a result of the improved sales margins and the continuation of cost control policies following the strategic review of overhead costs in October 2007.

Significantly, the Group achieved an EBITDA profit in three of the last six months prior to the end of the financial year.

Cash flow

As a result of the operating loss for the year and the Group's continuing investment in systems and technology, the cash outflow of the Group during the year was £419,000. This was offset by a loan from David Hood in October 2008 of £250,000.

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.

Financial Review *(continued)*

Going concern

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

The Group meets its day to day working capital requirements through an overdraft, currently guaranteed by its major shareholder, David Hood. The recent overdraft facility, which expired in February 2009 has a limit of £250,000. The Group continues to operate within this facility; June management accounts place the overdraft at £159,000. Whilst the bank has neither renewed this facility nor called in the overdraft, Mr Hood has indicated that he will make available an equivalent facility should repayment be demanded.

The Group has also received loans from Mr Hood totalling £3.47 million including accrued interest. In addition, one of the Group's landlords, Amerdale LLP (of which Mr Hood is the majority partner) has currently agreed to defer rent payments for the six month period to 31 March 2009, totalling £148,591, which will be repaid in full at £24,765 per month from December 2009 until May 2010. Rent for the subsequent period has been paid when due. Additionally, in January 2009 the Group agreed with HM Revenue and Customs to defer £253,000 of pay as you earn and value added tax. Repayments commenced in February 2009 and continue until September 2009 and the Group has, to date, complied fully with all repayments in respect of this agreement.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review on pages 4 to 5. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 6 to 8. In addition, notes 1 and 23 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As described in the Directors' Report on page 9, the current economic environment is challenging. Whilst the Group has reported an operating loss for the year the directors note that as at the year end the Group has achieved EBITDA profitability for three of the last six months, and that the Group has operated within its overdraft facility. The directors still consider the Group to be within its growth phase and as noted on page 3 sales and gross margins are expected to increase. The directors believe that the general economic conditions will continue to present challenges in terms of sales revenues although the local search market, in which the Group operates, continues to grow. Whilst the directors have implemented a number of cost saving measures to preserve cash and are investigating potential sources of additional finance, these general economic conditions do create some uncertainties over future trading results and cash flows. The directors have prepared cash flow forecasts for the period to March 2011. The cash flow forecast assumes increased sales and gross margin and no unnecessary capital expenditure. On the basis of these forecasts the Group is expected to continue to operate within its current bank overdraft limit for at least the next twelve months (assuming that interest on the loans from Mr Hood continues to be deferred) though the amount of headroom is minimal. Sensitised cash flow projections indicate that the Group may need to obtain further short term funding until the Group becomes cash positive.

Mr Hood has not sought repayment of the capital and interest on his loans and has indicated that he will, if necessary, consider providing further funding. The directors understand that it is not Mr Hood's intention to finance the Group on this basis for the long term. As a result the directors are currently considering a number of potential financing options including the possibility of raising new capital from the existing shareholders, to provide additional capital for the Group. The Group has also commenced discussions with Mr Hood about additional working capital facilities should they be needed or if other potential financing options do not prove possible. Any additional funding would potentially involve the conversion of existing debt to equity. Mr Hood has indicated that he will not enforce loan repayments in the short term whilst these discussions are in progress.

Financial Review *(continued)*

Going concern *(continued)*

Whilst the directors remain confident of continuing to operate within the current bank overdraft and of securing alternative funding, which may require shareholder approval, there can be no certainty in these respects. Accordingly the directors believe that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern and it may therefore be unable to realise assets and discharge liabilities in the ordinary course of business. Nevertheless after making full enquiries, and considering all the uncertainties described above, the directors have no reason to believe that the Group and the Company will be unable to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Annual report and financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.



Stephen M Barnes
Chief Executive
10 July 2009

Directors' Report

The directors present their Annual report and financial statements for the year ended 31 March 2009.

Activities and review of the business

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

The Group has achieved revenues of £5,595,012 (2008: £4,651,626), an operating loss of £811,857 (2008: £2,697,547) and a loss before tax of £992,178 (2008: £2,890,885).

Further details are contained in the Chairman's statement, Chief Executive's review and Financial review.

Principal risks and uncertainties

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

The Group finances its operations through equity and other borrowings. The interest calculated on other borrowings is at base rate plus 2.5%, with the exception of £250,000, which is at base rate plus 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.

Further details are contained in note 23.

Financial key performance indicators (KPIs)

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

	2009	2008	
Gross profit margin	32.35%	11.37%	Gross profit/turnover
Operating loss margin	(14.51)%	(57.99)%	Operating loss/turnover
Creditor days	54 days	49 days	Trade creditors/credit purchases
Performance per sales executive	£54,800	£46,600	Total telesales revenue/average number of telesales executives

Proposed dividend

The directors do not recommend the payment of a dividend (2008: *£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 at the year end are disclosed below:

	Beneficial Holdings	
	At 31 March 2009 No.	At 31 March 2008 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 I J Oliver	1,844,760	1,844,760
M A Riley	-	-

	Non-Beneficial Holdings	
	At 31 March 2009 No.	At 31 March 2008 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 2009 No.	At 31 March 2008 No.
D R Hood	100,000	100,000

There have been no changes in the above interests between 31 March 2009 and the date of this report.

Directors' Report *(continued)*

Directors and their interests *(continued)*

On 7 July 2008, options were granted by the Group to M A Riley at an option price of 24.5 pence per share. The options granted and outstanding as at 31 March 2009 are shown below.

On 9 January 2009, options were granted by the Group to D C Balbi at an option price of 24.5 pence per share. The options granted and outstanding as at 31 March 2009 are shown below.

	Class of share	Options outstanding at 31 March 2009	Options outstanding at 31 March 2008	Exercise price (pence)	Vesting year
Directors					
J H Newman	Ordinary 5p	9,000	9,000	25.0	2009 – 2016
A R Thirkill	Ordinary 5p	3,000	3,000	25.0	2009 – 2016
J H Newman	Ordinary 5p	150,000	150,000	28.5	2011 – 2018
A R Thirkill	Ordinary 5p	120,000	120,000	28.5	2011 – 2018
M A Riley	Ordinary 5p	150,000	-	24.5	2011 – 2018
Former director					
D C Balbi	Ordinary 5p	-	120,000	30.0	2010 – 2017
D C Balbi	Ordinary 5p	-	60,000	19.5	2011 – 2018

Options are exercisable no earlier than three years following the date of grant, and no later than ten years following the date of grant. All options require the employee to be in continuing employment to enable the option to be exercised.

During the year the Group's share price was recorded between 20p and 32.5p.

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

Report on remuneration

The remuneration committee comprises D R Hood (Chairman), 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 5 to the financial statements.

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

Substantial shareholdings

Save for the directors' interests disclosed above and those holdings separately disclosed below, 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.

Giltspur Nominees Limited and Pershing Nominees Limited have shareholdings of 4.65% and 4.85%, respectively.

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 is practical there is a working environment which will minimise the risk to health and safety of employees and those persons who are authorised to be on its premises.

Policy and practice on payment of creditors

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

At the year end there were 54 days (*2008: 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 £196 (*2008: £756*).

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

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

10 July 2009

Corporate Governance

Application of the principles of good governance

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

The Board

The Group is managed by a Board, consisting of 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 AIM.

Going concern

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

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

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

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

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 2009 which comprise the Consolidated 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 Annual 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 17.

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 includes that specific information presented in the Chairman's Statement, Chief Executive's Review and Financial Review that is cross referred from the 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 Annual 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 2009 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 2009;
- 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.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's and the Company's ability to continue as a going concern; in particular, the substantial achievement of cash flow forecasts and the continued availability of sufficient and ultimately alternative facilities (including any necessary shareholder approval). These conditions, along with other matters explained in note 1 to the financial statements indicate the existence of a material uncertainty which may cast significant doubt on the Group's and Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group and the Company were unable to continue as a going concern.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

10 July 2009

Consolidated Income Statement
For the year ended 31 March 2009

	<i>Note</i>	2009 £000	2008 £000
Revenue – continuing operations	<i>1,2</i>	5,595	4,651
Cost of sales		(3,785)	(4,122)
Gross profit		1,810	529
Amortisation of intangible assets		(174)	(251)
Administrative expenses		(2,448)	(2,975)
Total administrative expenses		(2,622)	(3,226)
Operating loss – continuing operations	<i>1,3</i>	(812)	(2,697)
Financial income	<i>6</i>	3	34
Financial expenses	<i>6</i>	(183)	(227)
Net financing expense		(180)	(193)
Loss before tax		(992)	(2,890)
Taxation	<i>7</i>	-	(55)
Loss for the year	<i>20</i>	(992)	(2,945)
Basic and diluted loss per share	<i>8</i>	(5.20p)	(16.22p)

The notes on pages 25 to 55 form part of these financial statements.

Balance Sheets
At 31 March 2009

	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Non-current assets					
Property, plant and equipment	10	251	397	-	-
Intangible assets	11	534	594	-	-
Investment in subsidiary	12	-	-	520	483
Deferred tax assets	13	838	838	90	90
		1,623	1,829	610	573
Current assets					
Trade and other receivables	14	345	282	3,109	3,726
Cash and cash equivalents	15	410	329	-	-
		755	611	3,109	3,726
Total assets		2,378	2,440	3,719	4,299
Current liabilities					
Bank overdraft	15	(250)	-	-	-
Interest-bearing loans and borrowings	16	(3,278)	(2,123)	-	-
Trade and other payables	17	(3,050)	(2,825)	(300)	(68)
Provisions	19	(80)	(80)	-	-
		(6,658)	(5,028)	(300)	(68)
Non-current liabilities					
Interest-bearing loans and borrowings	16	(287)	(1,023)	(100)	(100)
Trade and other payables	17	(20)	(21)	-	-
		(307)	(1,044)	(100)	(100)
Total liabilities		(6,965)	(6,072)	(400)	(168)
Net (liabilities)/assets		(4,587)	(3,632)	3,319	4,131

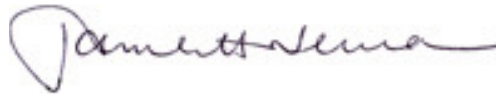
Balance Sheets *(continued)*
At 31 March 2009

	<i>Note</i>	Group		Company	
		2009	2008	2009	2008
		£000	£000	£000	£000
Equity attributable to equity holders of the parent					
Share capital	20	954	954	954	954
Share premium	20	3,871	3,871	3,871	3,871
Retained earnings	20	(9,412)	(8,457)	(1,506)	(694)
		<hr/>	<hr/>	<hr/>	<hr/>
Total equity		(4,587)	(3,632)	3,319	4,131
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

These financial statements were approved by the Board of directors on 10 July 2009 and were signed on its behalf by:



Stephen M Barnes
Director



James H Newman
Director

The notes on pages 25 to 55 form part of these financial statements.

Statement of Cash Flows

For the year ended 31 March 2009

	Note	Group		Company	
		2009 £000	2008 £000	2009 £000	2008 £000
Cash flows from operating activities					
Loss for the year		(992)	(2,945)	(849)	(559)
<i>Adjustments for:</i>					
Depreciation		151	166	-	-
Amortisation		174	251	-	-
Financial income		(3)	(34)	-	-
Financial expense		183	227	-	-
Loss on sale of property, plant and equipment		10	11	-	-
Equity-settled share-based payment expenses		37	89	-	-
Taxation		-	55	-	6
		(440)	(2,180)	(849)	(553)
(Increase)/decrease in trade and other receivables		(63)	123	617	(1,379)
Increase in trade and other payables		220	512	232	48
Increase in provisions		-	80	-	-
Change in deferred government grant		(1)	(2)	-	-
		(284)	(1,467)	-	(1,884)
Interest paid		(9)	(1)	-	-
		(293)	(1,468)	-	(1,884)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		-	5	-	-
Interest received	6	3	34	-	-
Acquisition of property, plant and equipment	10	(15)	(100)	-	-
Acquisition of other intangible assets	11	(114)	(331)	-	-
		(126)	(392)	-	-
Cash flows from financing activities					
Proceeds from the issue of share capital (net of costs)	20	-	1,884	-	1,884
Repayment of borrowings		-	(50)	-	-
Proceeds from the receipt of government grants		-	25	-	-
Advance of loans		250	-	-	-
		250	1,859	-	1,884
Net decrease in cash and cash equivalents		(169)	(1)	-	-
Cash and cash equivalents at 1 April		329	330	-	-
		160	329	-	-
Cash and cash equivalents at 31 March	15	160	329	-	-

The notes on 25 to 55 form part of these financial statements.

Statement of Changes in Shareholders' Equity

For the year ended 31 March 2009

Group

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
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/>
Balance at 1 April 2008	954	3,871	(8,457)	(3,632)
Total recognised income and expense	-	-	(992)	(992)
Equity-settled share-based payment transactions	-	-	37	37
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2009	954	3,871	(9,412)	(4,587)
	<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 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/>
Balance at 1 April 2008	954	3,871	(694)	4,131
Total recognised income and expense	-	-	(849)	(849)
Equity-settled share-based payment transactions	-	-	37	37
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2009	954	3,871	(1,506)	3,319
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The notes on 25 to 55 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.

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

New IFRS and amendments to IAS and interpretations not applied

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

International Financial Reporting Standards	Effective for accounting periods starting after
IAS 1* Presentation of financial statements: a revised presentation	1 January 2009
IFRS 2* Share based payment: vesting conditions and cancellations	1 January 2009
IFRS 8* Operating segments	1 January 2009
IAS 23* Borrowing costs	1 January 2009
IFRSs* Annual improvements to IFRSs	1 January 2009
IAS 27 Consolidated and separate financial statements	1 July 2009
IFRS 3 Business combinations	1 July 2009
 International Financial Reporting Interpretations Committee	
IFRIC 13* Customer loyalty programmes	1 July 2008

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

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

Notes (continued)

1 Accounting policies (continued)

Measurement convention

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

Basis of preparation

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

The Group meets its day to day working capital requirements through an overdraft, currently guaranteed by its major shareholder, David Hood. The recent overdraft facility, which expired in February 2009 has a limit of £250,000. The Group continues to operate within this facility; June management accounts place the overdraft at £159,000. Whilst the bank has neither renewed this facility nor called in the overdraft, Mr Hood has indicated that he will make available an equivalent facility should repayment be demanded.

The Group has also received loans from Mr Hood totalling £3.47 million including accrued interest. In addition, one of the Group's landlords, Amerdale LLP (of which Mr Hood is the majority partner) has currently agreed to defer rent payments for the six month period to 31 March 2009, totalling £148,591, which will be repaid in full at £24,765 per month from December 2009 until May 2010. Rent for the subsequent period has been paid when due. Additionally, in January 2009 the Group agreed with HM Revenue and Customs to defer £253,000 of pay as you earn and value added tax. Repayments commenced in February 2009 and continue until September 2009 and the Group has, to date, complied fully with all repayments in respect of this agreement.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive's Review on pages 4 to 5. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 6 to 8. In addition, note 23 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

As described in the Directors' Report on page 9, the current economic environment is challenging. Whilst the Group has reported an operating loss for the year the directors note that as at the year end the Group has achieved EBITDA profitability for three of the last six months, and that the Group has operated within its overdraft facility. The directors still consider the Group to be within its growth phase and as noted on page 3 sales and gross margins are expected to increase. The directors believe that the general economic conditions will continue to present challenges in terms of sales revenues although the local search market, in which the Group operates, continues to grow. Whilst the directors have implemented a number of cost saving measures to preserve cash and are investigating potential sources of additional finance, these general economic conditions do create some uncertainties over future trading results and cash flows. The directors have prepared cash flow forecasts for the period to March 2011. The cash flow forecast assumes increased sales and gross margin and no unnecessary capital expenditure. On the basis of these forecasts the Group is expected to continue to operate within its current bank overdraft limit for at least the next twelve months (assuming that interest on the loans from Mr Hood continues to be deferred) though the amount of headroom is minimal. Sensitised cash flow projections indicate that the Group may need to obtain further short term funding until the Group becomes cash positive.

Mr Hood has not sought repayment of the capital and interest on his loans and has indicated that he will, if necessary, consider providing further funding. The directors understand that it is not Mr Hood's intention to finance the Group on this basis for the long term. As a result the directors are currently considering a number of potential financing options including the possibility of raising new capital from the existing shareholders, to provide additional capital to the Group. The Group has also commenced discussions with Mr Hood about additional working capital facilities should it be needed or if other potential financing options do not prove possible. Any additional funding would potentially involve the conversion of existing debt to equity. Mr Hood has indicated that he will not enforce loan repayments in the short term whilst these discussions are in progress.

Notes (continued)

1 Accounting policies (continued)

Basis of preparation (continued)

Whilst the directors remain confident of continuing to operate within the current bank overdraft and of securing alternative funding, which may require shareholder approval, there can be no certainty in these respects. Accordingly the directors believe that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern and it may therefore be unable to realise assets and discharge liabilities in the ordinary course of business. Nevertheless after making full enquiries, and considering all the uncertainties described above, the directors have no reason to believe that the Group and the Company will be unable to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the Annual report and financial statements. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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. Whilst some outcomes have been affected by the volatility in the financial markets, all judgements and assumptions in the accounting policies remain consistent with previous years.

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

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

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the Group

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

- (a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

Property, plant and equipment

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

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

Depreciation is charged to the 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
- computer equipment 33.3% per annum straight line

Notes (continued)

1 Accounting policies (continued)

Impairment excluding deferred tax assets (continued)

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

Calculation of recoverable amount

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

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

Government grants

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

Employee benefits

Defined contribution plans

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

Share-based payment transactions

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

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

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

Notes (continued)

1 Accounting policies (continued)

Share-based payment transactions (continued)

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

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

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

Short-term benefits

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

Provisions

A provision is recognised in the 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.

Revenue

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

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.

Notes (continued)

1 Accounting policies (continued)

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.

Financing income and expenses

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

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

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the 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.

2 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:

	2009 £000	2008 £000
United Kingdom	5,585	4,643
Europe	10	8
	<hr/>	<hr/>
	5,595	4,651
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

3 Expenses and auditors' remuneration

Included in the loss for the year are the following:

	2009	2008
	£000	£000
Onerous lease provision	-	80
Amortisation of intangible assets	174	251
Depreciation of property, plant and equipment – owned assets	151	166
Loss on sale of property, plant and equipment	10	11
Operating lease costs – land and buildings	293	323
Release of government grant	1	2
	<u> </u>	<u> </u>

Auditors' remuneration:

	2009	2008
	£000	£000
Audit of these financial statements	7	6
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	7	7
Other services pursuant to such legislation	13	4
Other services relating to taxation	4	3
	<u> </u>	<u> </u>

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.

Notes (continued)

4 Staff numbers and costs

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

	Number of employees		Number of employees	
	Group		Company	
	2009	2008	2009	2008
Management	7	6	7	6
Key account managers and support	-	15	-	-
Telesales and support	133	128	-	-
Head office	30	40	-	-
	<u>170</u>	<u>189</u>	<u>7</u>	<u>6</u>

The aggregate payroll costs of these persons were as follows:

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Wages and salaries	3,723	4,070	652	413
Share-based payments (see note 18)	37	89	-	-
Social security costs	359	391	64	44
Other pension costs	62	42	62	42
	<u>4,181</u>	<u>4,592</u>	<u>778</u>	<u>499</u>

5 Directors' remuneration

	2009	2008
	£000	£000
Directors' emoluments	432	374
Company contributions to money purchase pension plans	59	42
Share-based payments	8	44
Compensation for loss of office	30	-
	<u>529</u>	<u>460</u>

The aggregate of emoluments of the highest paid director was £99,350 (2008: £102,265) and company pension contributions of £19,027 (2008: £15,800) were made to a money purchase scheme on his behalf.

Notes (continued)

5 Directors' remuneration (continued)

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	
Directors			
J H Newman	9,000	9,000	0.25
A R Thirkill	3,000	3,000	0.25
J H Newman	150,000	150,000	0.285
A R Thirkill	120,000	120,000	0.285
M A Riley	-	60,000	0.245
Former director			
D C Balbi	120,000	-	0.30
D C Balbi	60,000	-	0.195

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

	Number of directors	
	2009	2008
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	3
	=====	=====

6 Financial income and expenses

	2009 £000	2008 £000
Bank interest receivable	3	34
	-----	-----
Financial income	3	34
	=====	=====
Interest payable on loans and borrowings	178	217
Interest on shares classified as a liability	5	10
	-----	-----
Financial expenses	183	227
	=====	=====

Notes (continued)

7 Taxation

Recognised in the income statement

	2009	2008
	£000	£000
<i>Deferred tax</i>		
Effect of change in tax rate	-	(60)
Origination and reversal of temporary differences	-	5
	<hr/>	<hr/>
Total tax in income statement	-	(55)
	<hr/> <hr/>	<hr/> <hr/>

Reconciliation of effective tax rate

	2009	2008
	£000	£000
Loss for the year	(992)	(2,945)
Total tax expense	-	(55)
	<hr/>	<hr/>
Loss excluding taxation	(992)	(2,890)
	<hr/> <hr/>	<hr/> <hr/>
Tax using the UK corporation tax rate of 28% (2008: 30%)	(278)	(867)
Non deductible expenses	94	8
Effect of tax losses not recognised	184	969
Change in tax rate	-	(60)
Origination and reversal	-	5
	<hr/>	<hr/>
Total tax expense	-	(55)
	<hr/> <hr/>	<hr/> <hr/>

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.

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

Notes *(continued)*

8 Earnings per share

The calculation of earnings per share is based upon the loss after taxation of £992,178 (2008: £2,945,465) divided by 19,073,241 (2008: 18,162,494), 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.

	2009	2008
Basic and diluted loss per share	(5.20p)	(16.22p)
Loss per share before amortisation	(4.29p)	(14.84p)
	<u> </u>	<u> </u>

Weighted average number of ordinary shares:

	2009	2008
	000's	000's
Issued ordinary shares at 1 April	19,073	14,629
Effect of shares issued in June 2007	-	3,533
Effect of share options exercised	-	-
	<u> </u>	<u> </u>
	19,073	18,162
	<u> </u>	<u> </u>

9 Dividends

The directors propose no dividend to be paid for the year (2008: *£nil*).

Notes (continued)

10 Property, plant and equipment – Group

	Land and buildings £000	Plant and equipment £000	Total £000
Cost			
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/> <hr/>	<hr/> <hr/>
Balance at 1 April 2008	132	626	758
Additions	-	15	15
Disposals	-	(37)	(37)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2009	132	604	736
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Depreciation and impairment			
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/> <hr/>	<hr/> <hr/>
Balance at 1 April 2008	18	343	361
Depreciation charge for the year	8	143	151
Disposals	-	(27)	(27)
	<hr/>	<hr/>	<hr/>
Balance at 31 March 2009	26	459	485
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Net book value			
At 1 April 2007	120	360	480
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2008 and 1 April 2008	114	283	397
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2009	106	145	251
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

Notes (continued)

11 Intangible assets – Group

	Data costs £000	Website costs £000	Data management system £000	Total £000
Cost				
Balance at 1 April 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
Balance at 1 April 2008	659	485	57	1,201
Additions	104	-	10	114
	<u>763</u>	<u>485</u>	<u>67</u>	<u>1,315</u>
Balance at 31 March 2009	763	485	67	1,315
Amortisation and impairment				
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
Balance at 1 April 2008	174	433	-	607
Amortisation for the year	116	45	13	174
	<u>290</u>	<u>478</u>	<u>13</u>	<u>781</u>
Balance at 31 March 2009	290	478	13	781
Net book value				
At 1 April 2007	292	170	52	514
	<u>485</u>	<u>52</u>	<u>57</u>	<u>594</u>
At 31 March 2008 and 1 April 2008	485	52	57	594
	<u>473</u>	<u>7</u>	<u>54</u>	<u>534</u>
At 31 March 2009	473	7	54	534

Amortisation charge:

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

	2009 £000	2008 £000
Administrative expenses	<u>174</u>	<u>251</u>

Notes (continued)

12 Investment in subsidiary

The Company has the following investment in a subsidiary company:

	Total £000
Cost and net book value	
Balance at 1 April 2007	394
Additions – equity-settled share-based payments	89
	483
Balance at 31 March 2008	483
Balance at 1 April 2008	483
Additions – equity-settled share-based payments	37
	520
Balance at 31 March 2009	520
Net book value	
At 1 April 2007	394
	483
At 31 March 2008 and 1 April 2008	483
	520
At 31 March 2009	520

Company	Principal activity	Country of incorporation	Class of shares held	Ownership	
				2009	2008
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%

Notes (continued)

13 Deferred tax assets – Group

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets 2009 £000	2008 £000
Tax value of loss carried forward	838	838
	<hr/>	<hr/>
Tax assets	838	838
	<hr/> <hr/>	<hr/> <hr/>

Movement in deferred tax during the year:

	1 April 2008 £000	Recognised in income £000	31 March 2009 £000
Tax value of loss carried forward utilised	838	-	838
	<hr/>	<hr/>	<hr/>
	838	-	838
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Movement in deferred tax during the prior 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/>

Unrecognised deferred tax asset

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

	2009 £000	2008 £000
Tax losses	1,536	969
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

Notes (continued)

13 Deferred tax assets – Company

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets 2009 £000	2008 £000
Tax value of loss carried forward	90	90
	<hr/>	<hr/>
Tax assets	90	90
	<hr/> <hr/>	<hr/> <hr/>

Movement in deferred tax during the year:

	1 April 2008 £000	Recognised in income £000	31 March 2009 £000
Tax value of loss carried forward utilised	90	-	90
	<hr/>	<hr/>	<hr/>
	90	-	90
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Movement in deferred tax during the prior 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/>

Unrecognised deferred tax asset

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

	2009 £000	2008 £000
Tax losses	320	155
	<hr/> <hr/>	<hr/> <hr/>

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

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

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

Notes (continued)

14 Trade and other receivables

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Due from subsidiary undertaking	-	-	3,106	3,722
Trade receivables	16	20	-	-
Prepayments and accrued income	322	252	3	4
Other receivables	7	10	-	-
	<u>345</u>	<u>282</u>	<u>3,109</u>	<u>3,726</u>

At 31 March 2009 trade receivables are shown net of an allowance for doubtful debts of £13,920 (2008: £24,680) arising from a provision for potential non-payment of debts.

15 Cash and cash equivalents/bank overdraft

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Cash and cash equivalents per balance sheet	410	329	-	-
Bank overdraft (secured)	(250)	-	-	-
	<u>160</u>	<u>329</u>	<u> </u>	<u> </u>
Cash and cash equivalents per cash flow statement	<u>160</u>	<u>329</u>	<u> </u>	<u> </u>

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

16 Interest-bearing loans and borrowings

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

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Non-current liabilities				
D R Hood loan account	187	923	-	-
Shares classified as a liability (note 20)	100	100	100	100
	<u>287</u>	<u>1,023</u>	<u>100</u>	<u>100</u>
Current liabilities				
Current portion of D R Hood loan account	3,278	2,123	-	-
	<u>3,278</u>	<u>2,123</u>	<u> </u>	<u> </u>

Notes (continued)

16 Interest-bearing loans and borrowings (continued)

Terms and debt repayment schedule

	Currency	Nominal interest rate	Year of maturity	Face value 2009 £000	Carrying amount 2009 £000	Face value 2008 £000	Carrying amount 2008 £000
D R Hood loan	£	Linked to base rate	2010	3,209	3,209	3,046	3,046
D R Hood loan	£	Linked to base rate	2011	256	256	-	-
Shares classified as a liability	£	5% per annum	N/A	100	100	100	100
				3,565	3,565	3,146	3,146

Mr Hood has not sought repayment of the capital and interest on his loans and Mr Hood has indicated that he will not enforce loan repayments in the short term whilst discussions over refinancing the group are in progress.

17 Trade and other payables

	Group		Company	
	2009 £000	2008 £000	2009 £000	2008 £000
Trade payables	690	513	-	-
Non-trade payables and accrued expenses	1,287	1,113	300	68
Deferred income	1,071	1,197	-	-
Deferred government grants	2	2	-	-
	3,050	2,825	300	68
Current liabilities				
Deferred government grants	20	21	-	-
	20	21	-	-
Non-current liabilities				

Included within trade and other payables is £nil (2008: £45,000) for the Group and £nil (2008: £nil) for the Company expected to be settled in more than 12 months.

Included within accrued expenses is £15,000 (2008: £10,000) in respect of accrued interest on shares classified as a liability. This amount is payable when the Company has distributable profits.

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

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

Notes (continued)

18 Employee benefits

Defined contribution plans

The Group operates a defined contribution pension plan.

The total expense relating to this plan in the current year was £61,647 (2008: £42,425).

Share-based payments – Group

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

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

The 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. 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.

On 16 June 2006, the Company created a warrant instrument for W H Ireland to subscribe at 41.15p per share for 294,909 new ordinary shares at any time before 23 June 2009.

On 7 July 2008, options were granted by the Group to M A Riley at an option price of 24.5 pence per share. The options granted and outstanding as at 31 March 2009 are shown below.

On 9 January 2009, options were granted by the Group to D C Balbi at an option price of 24.5 pence per share. The options granted and outstanding as at 31 March 2009 are shown below.

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 D C Balbi granted by parent on 15 February 2007	120,000	Continuing employment	2010-2017
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
Equity settled award to M A Riley granted by parent on 7 July 2008	150,000	Continuing employment	2011-2018
Equity settled award to D C Balbi granted by parent on 9 January 2009	60,000	Continuing employment	2012-2019

Notes (continued)

18 Employee benefits (continued)

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

	Weighted average exercise price 2009 pence	Number of options 2009 number	Weighted average exercise price 2008 pence	Number of options 2008 number
Outstanding at the beginning of the period	28.97	1,165,191	35.77	569,249
Forfeited during the period	29.08	(253,230)	32.77	(81,382)
Exercised during the period	-	-	-	-
Granted during the period	29.50	280,866	23.71	677,324
	<u>21.66</u>	<u>1,192,827</u>	<u>28.97</u>	<u>1,165,191</u>
Outstanding at the end of the period				
Exercisable at the end of the period	<u>-</u>	<u>-</u>	<u>27.59</u>	<u>439,909</u>

The options outstanding at the year end have an exercise price in the range of 24.5p to 41.15p (2008: 0p to 41.15p) and a weighted average contractual life of 3.39 years (2008: 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	7 July 2008
	9 January 2009		
Fair value at measurement date			
Weighted average share price - pence	28.5	28.5	24.5
Exercise price - pence	0	28.5	24.5
Expected volatility (expressed as % used in the modelling under Black Scholes model)	41.26%	41.28%	43.85%
Option life (expressed as weighted average life used in the modelling under Black Scholes model)	6.5	6.5	6.5
Expected dividends	-	-	-
Risk-free interest rate (based on national government bonds)	5%	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)*

18 Employee benefits *(continued)*

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

	2009	2008
	£000	£000
Equity-settled share-based payment expense	37	89
	<u> </u>	<u> </u>

19 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>
Balance at 1 April 2008 and 31 March 2009	80
	<u> </u>
Non-current	-
Current	80
	<u> </u>
	80
	<u> </u>

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

Notes (continued)

20 Capital and reserves

Reconciliation of movement in capital and reserves – Group

	Share capital £000	Share premium £000	Retained earnings £000	Total equity £000
Balance at 1 April 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/>
Balance at 1 April 2008	954	3,871	(8,457)	(3,632)
Total recognised income and expense	-	-	(992)	(992)
Equity-settled share-based payment transactions	-	-	37	37
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2009	954	3,871	(9,412)	(4,587)
	<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 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/>
Balance at 1 April 2008	954	3,871	(694)	4,131
Total recognised income and expense	-	-	(849)	(849)
Equity-settled share-based payment transactions	-	-	37	37
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March 2009	954	3,871	(1,506)	3,319
	<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 financial statements.

Notes (continued)

20 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	
	2009 £000	2008 £000	2009 £000	2008 £000
At 1 April 2008	100	100	954	731
Issued for cash	-	-	-	223
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 March 2009 – fully paid	100	100	954	954
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
<i>Authorised</i>			2009	2008
30,000,000 Ordinary shares of 5p each			£000	£000
150,000 Cumulative preference shares of £1 each			1,500	1,500
			150	150
			<hr/>	<hr/>
			1,650	1,650
			<hr/> <hr/>	<hr/> <hr/>
<i>Allotted, called up and fully paid</i>			2009	2008
19,073,441 Ordinary shares of 5p each			£000	£000
100,000 Cumulative preference shares of £1 each			954	954
			100	100
			<hr/>	<hr/>
			1,054	1,054
			<hr/> <hr/>	<hr/> <hr/>
Shares classified as liabilities			100	100
Shares classified in shareholders' funds			954	954
			<hr/>	<hr/>
			1,054	1,054
			<hr/> <hr/>	<hr/> <hr/>

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)

20 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.

21 Operating lease

Non-cancellable operating lease rentals are payable as follows:

Group	2009	2008
	£000	£000
Less than one year	308	284
Between one and five years	986	986
More than five years	1,827	2,135
	<hr/>	<hr/>
	3,121	3,405
	<hr/> <hr/>	<hr/> <hr/>

During the year £293,493 was recognised as an expense in the income statement in respect of operating leases (2008: £322,871).

22 Related parties

Group

Transactions with key management personnel

The remuneration of the directors, who are the key management personnel of the Group is disclosed in note 5. A number of key management personnel or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of 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 (2008: 66.27 per cent) of the voting shares of the Company.

At 31 March 2009, an amount of £2,911,552 (2008: £2,661,552) (being the principal loan excluding interest) was owed by Infoserve Limited to D R Hood, a director and principal shareholder of Infoserve Group plc. Mr Hood has not sought repayment of the capital and interest on his loans and Mr Hood has indicated that he will not enforce loan repayments in the short term whilst discussions over refinancing the group are in progress. Interest is charged on the first £2,661,552 at a rate of 2.5% above Barclays Bank plc base rate and at 5.0% above Barclays Bank plc base rate on the remaining £250,000. Interest charged on the loans during the year amounted to £168,616 (2008: £215,935) and £553,661 remained unpaid at the year end (2008: £385,046) and is included within interest-bearing loans and borrowings.

Notes (continued)

22 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 £267,644 (2008: £165,964). The amount owed by Infoserve Limited at the balance sheet date was £148,591 (2008: £75,911) and represents two quarters of rent deferral. Repayments will commence in December 2009. The lease is for a term of fifteen years at £246,405 per annum, with the first year being rent free. The period between rent reviews is five years.

During the year, Infoserve Limited made sales of £33,229 (2008: £35,017) to and purchases of £76,096 (2008: £62,353) from Multiflight Limited, a company in which D R Hood is a director and principal shareholder. At the balance sheet date Infoserve Limited owed £42,918 (2008: £19,402) to Multiflight Limited.

Trade and other payables in the Company's balance sheet includes an amount of £91,010 (2008: £33,530) which represents salaries owed to the non-executive directors and the social security costs thereon.

23 Financial instruments

Fair values of financial instruments

Trade and other receivables

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

Trade and other payables

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

Cash and cash equivalents

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

Interest-bearing borrowings

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

Financial instruments

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

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

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

Notes (continued)

23 Financial instruments (continued)

Liquidity risk

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

Maturity of financial liabilities

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

	On demand	Long term borrowing	On demand	Long term borrowing
	2009	2009	2008	2008
	£000	£000	£000	£000
Less than one year	554	2,724	385	1,738
1 to 2 years	-	187	-	923
2 to 5 years	-	-	-	-
Over 5 years	-	100	-	100

The interest on the loans from D R Hood are charged at a rate of 2.5% above Barclays Bank plc base rate on the first £2,661,552 and at 5.0% above Barclays Bank plc base rate on the remaining £250,000. The preference shares of £100,000 attract a fixed cumulative aggregate cash dividend of 5% per annum.

Mr Hood has not sought repayment of the capital and interest on his loans and Mr Hood has indicated that he will not enforce loan repayments in the short term whilst discussions over refinancing the group are in progress.

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 between base rate plus 2.5% and base rate plus 5.0%. 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 £14,500.

Notes (continued)

23 Financial instruments (continued)

Credit risk

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

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

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

The exposure to credit risk as at 31 March 2009 was as follows:

Group	2009	2008
	£000	£000
Gross trade receivables	30	45
Provision for trade receivables	(14)	(25)
	<hr/>	<hr/>
Net trade receivables	16	20
	<hr/> <hr/>	<hr/> <hr/>
Cash and cash equivalents	160	329
	<hr/> <hr/>	<hr/> <hr/>

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

	Gross debtors	Provision	Due in 30 days	30 –60 days	Greater than
	£000	£000	£000	£000	60 days
					£000
31 March 2009	30	(14)	21	3	6
31 March 2008	45	(25)	15	3	27

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

	Group		Company	
	2009	2008	2009	2008
	£000	£000	£000	£000
Balance at 1 April	25	23	-	-
Impairment loss recognised	-	2	-	-
Impairment loss reversed	(11)	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 March	14	25	-	-
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

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

Notes *(continued)*

23 Financial instruments *(continued)*

Fair values

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

Group	Carrying value		Fair value	
	2009	2008	2009	2008
	£000	£000	£000	£000
Trade receivables	16	20	16	20
Other receivables	7	10	7	10
Cash and cash equivalents	410	329	410	329
Bank overdraft	(250)	-	(250)	-
Trade payables	(690)	(513)	(690)	(513)
Interest-bearing loans and borrowings	(3,565)	(3,146)	(3,565)	(3,146)

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.

24 Capital commitments

The Group had no capital commitments at 31 March 2009 (2008: *£nil*).