



Nasstar plc

Report and financial statements for the year ended 30 September 2011

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Nasstar plc
Report and financial statements for the year ended 30 September 2011

Directors, secretary and advisers

Directors

Lord Daresbury	Non-executive Chairman
C M A Black	Chief Executive
D P Greef	Operations Director
M A Eve	Finance Director

Secretary M A Eve

Company registration number 5623736

Registered office 14-18 Old Street
London
EC1V 9BH

Nominated adviser & broker Allenby Capital Limited
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London
W1K 4ND

Registrars Neville Registrars Limited
Neville House
18 Laurel Lane
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Solicitors Marriott Harrison
Staple Court
11 Staple Inn Buildings
London
WC1V 7QH

Auditors Gerald Edelman
25 Harley Street
London
W1G 9BR

Principal bankers HSBC Bank PLC
City Commercial Centre
28 Borough High Street
London
SE1 1YB

Chairman's statement

Highlights

- 12% increase in EBITDA* profit to £336,000 (2010: £301,000)
- Loss after tax reduced to £111,000 (2010: loss £302,000)
- 25% increase in live Hosted Desktop subscribers in the year from 1,600 to 2,000
- Turnover £2.3m (2010: £2.4m)
- £1.2m new equity raised during the year

Post year-end

- 15% increase in Hosted Desktop subscribers since the year-end with live subscribers rising to 2,300 in December 2011

**Earnings before interest, taxation, depreciation, amortisation and share-based payments*

Chairman's Statement

We have had another year of Hosted Desktop growth with a 25% increase in subscribers. Since the year-end we have added another 300 subscribers, being a 15% increase in live subscribers during the first quarter.

EBITDA for 2011 increased to £336,000 and the loss after tax has been reduced to £111,000. We strengthened the balance sheet during the period through an institutional placing and the new equity puts Nasstar in a position to continue to capitalise on the growth opportunities in the market.

Our strategy of focusing on our intellectual property in the Hosted Desktop platform, and distributing our platform through partners, has begun to produce the results the Board expected. We intend to continue this strategy and are confident of further growth in the new year, which has started very positively.

We have a significant sales pipeline with a number of opportunities that we hope to win in the next few months as businesses look to adopt cloud computing to save resources and improve productivity.

We view the future with confidence.

Lord Daresbury
Chairman
6 January 2012

Operating and financial review

This year we have continued with our vision of becoming a leader in the provision of hosted desktop cloud computing whilst also working on strengthening the Company's financial position. Sales of the Hosted Desktop service grew during the year with a 25% increase in subscriber numbers. The first quarter of the new financial year has seen a further rise of 300 new subscribers, representing a 15% increase since September.

A significant sales pipeline has been generated through our partner programme, which provides a route to market for our service in the UK and overseas.

We intend to continue our focused strategy of developing the intellectual property in the Hosted Desktop platform and distribution through the partner programme.

Financial review

We reduced losses after tax by 63% from £302,000 to £111,000 and grew our EBITDA profit from £301,000 to £336,000.

The institutional placing in July 2011, which raised £1.2m before expenses, has strengthened our balance sheet and provided additional capital to invest in improving our platform for both existing and new customers.

Employees

We have recruited additional technical staff during the year to strengthen our team. We have been fortunate to benefit from a very hard working and skilled team of employees who believe in our vision and pursue it with passion and professionalism. We anticipate recruiting additional technical resource as the business grows and as we continue to develop our intellectual property and grow the subscription base.

Partner programme

We have signed one of the largest Hosted Exchange providers in the UK which has already helped us to win, approximately, 200 Hosted Desktop subscribers under contract. Other new partners include Iomart Group plc and iHotdesk Limited. Our focus is on working with the right partners rather than lots of partners.

Hosted Exchange

Hosted Exchange revenue reduced during the year. There were three main reasons for this. Firstly, Hosted Exchange is now a competitive and commoditised market and we have brought tariffs in line with competitive pricing to ensure that we retain customers. Secondly, some of our customers were the subject of M&A activity whereby the new owner did not require Nasstar's Hosted Exchange service. Thirdly, some of our customers have ceased trading.

We are now able to migrate our customers to a Hosted Exchange 2010 platform and, as a result, we believe that we can increase revenue again from hosted email which includes Hosted Exchange and email archiving.

Market review

The cloud computing market

Cloud computing at its broadest describes any service delivered over the internet. It's a term that is used to cover both consumer facing services and business services. Examples of consumer cloud computing products include Apple's iCloud and iPhone/iPad products that enable consumers to store pictures, music and apps in the cloud and access them on iPhones and iPads. Other examples include Facebook and Twitter as apps that are hosted and accessed via different devices (web browsers and mobile devices).

Consumers who use these services are also working in business and their familiarity with the cloud computing concept will help drive adoption in the business market.

Operating and financial review

According to market research analysts IDC, by 2014 over one-third of all new business app purchases will be delivered as a cloud computing service (IDC Predictions, 2011). According to a study undertaken in 2011 for The Guardian's Cloud Technology supplement (October 2011), almost half of the businesses polled indicated they are ready to adopt cloud computing.

Cloud computing is a growth sector in both the consumer and business markets. Hosted Desktop has the essential characteristics of cloud computing, namely usage-based payment and multi-tenanted architecture – the idea of physical infrastructure and software applications being shared by multiple customers. In the cloud computing space Nasstar Hosted Desktop could be described as *Software as a Service (SaaS)* or *Desktop as a Service (DaaS)*. Nasstar Hosted Desktop means that a company's applications (generally referred to as "apps") and data are stored in data centres (the cloud) and accessed via a range of devices such as thin clients, tablets, PCs, laptops and mobile devices.

It should be noted that Nasstar does not operate in the market for *Infrastructure as a Service* where data centre and hardware manufacturers provide servers, storage and computing power as a service rather than selling the hardware on a stand-alone basis. Examples include Amazon Web Services and Microsoft Azure. The boundaries between data centre providers, software vendors and hardware manufacturers are blurring as these components converge and are offered as a service in the cloud.

Nasstar Hosted Desktop - background and developments

Nasstar Hosted Desktop was first launched in 2004. Since then the Company has continued to develop the service, focusing on scalability, user experience and flexibility. During the year we released "AddApp" which enables customers and partners to add and remove apps such as Microsoft Project, Visio and other apps. We have also designed the system to work where the hosted exchange email aspect of the service is hosted by a third party. This includes working with Microsoft Office 365.

Competition

Microsoft Office 365 launched during the year. Nasstar Hosted Desktop can work with Office 365 for companies who wish to use that service but need to have their other non-Microsoft apps hosted in the cloud. There are a number of UK companies that offer hosted desktop or a virtual desktop (VDI) service. Larger companies that offer businesses cloud computing include Google (Google Apps) and Microsoft with their Office 365 product. Neither of these solutions hosts third party apps, such as Sage, and as noted above Nasstar Hosted Desktop has been built to work in conjunction with Microsoft Office 365. Nasstar Hosted Desktop is a server-based solution that is focused on delivering apps and data in the cloud and we believe this is a more scalable approach than VDI, though VDI has its place.

Nasstar Hosted Desktop is a platform for delivering applications from multiple vendors in the cloud – not just Microsoft, but other apps such as accounting software, recruitment apps, and industry specific apps. We believe that this approach future proofs Nasstar Hosted Desktop because no single large vendor will host another's software apps – an integrated portal that brings multiple vendor apps and data together in the cloud is where we believe the future lies, and that is what Nasstar Hosted Desktop does.

Outlook

We believe that growth will be stronger during the current financial year as evidenced by the increase in subscribers during the first quarter and the strong pipeline..

Charles Black
Chief Executive Officer
6 January 2012

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2011.

Results and dividends

The Group made a loss for the year after taxation of £111,000 (2010: loss £302,000). Further details are shown in the Consolidated Statement of Comprehensive Income on page 14.

No dividends were paid during the year. The Directors do not recommend a dividend (2010: nil).

Principal activities

The Group operates as a provider of hosted exchange and hosted desktop cloud computing services.

Review of the business

The review of the Group's activities and performance for the year and its prospects for 2012 are contained in the Chairman's Statement on page 3 and the Operating and Financial Review on pages 4 to 5.

Key Performance Indicators ('KPIs')

The Directors regularly review user numbers, revenues, operating costs, and product development to ensure that sufficient cash resources are available for the continued development and support of its products. Primary KPIs at the year-end were as follows:

	2011	2010
Users:		
Hosted Desktop	2,000	1,600
Hosted Exchange	6,600	9,300
	£000	£000
Revenues	2,257	2,350
Operating costs, including cost of sales	2,269	2,466
Current assets (excluding cash)	444	460
Current liabilities	458	649
Cash and cash equivalents	814	5

Capital structure

At 1 October 2010 the Company's issued share capital comprised 35,733,224 ordinary shares of 1p each. There have been the following changes in the issued share capital during the year:

- On 14 June 2011, 15,000,000 ordinary shares were issued at a premium of 7p each.

Net funds raised, after expenses, amounted to £1,133,750. The funds were utilised in continuing the development of the Group's application services and to fund working capital requirements.

The current share capital of the Company comprises 50,733,224 ordinary shares of 1p each.

Directors' report

Principal risks and uncertainties

The Group operates as a provider of hosted exchange and hosted desktop 'cloud computing' services. Whilst the Board considers this to be a market with considerable growth potential, there is a risk that the Group's business will not meet current expectations if the sales assumptions made by the Board are incorrect. The market for Hosted Exchange and Hosted Desktop is competitive and, given that the Board believes that the market is fast-growing, it is likely that competition will increase, which could affect the Group's sales performance. Large and well funded businesses may decide to enter the market and this could affect the Group's ability to achieve its sales forecasts. As the market becomes more competitive and commoditised there is a risk that the Group's gross profit margin per user may reduce.

Further consideration of risks and uncertainties are set out in note 24 of these financial statements.

Directors

The following directors have held office since 1 October 2010:

Lord Daresbury
C M A Black
D P Greef
M A Eve

At the Annual General Meeting, in accordance with the Articles of Association of the Company, D P Greef retires by rotation and offers himself for re-election.

Directors' interests

The directors who held office at 30 September 2011 had the following interests in the shares of the Company:

	Ordinary shares of 1 pence each		
	Shareholding %	30 September 2011	1 October 2010
Lord Daresbury	11.24%	5,701,062	5,701,062
C M A Black	17.54%	8,900,000	8,865,833
D P Greef	5.24%	2,657,881	2,657,881
M A Eve	0.62%	312,885	95,000

Directors' report – continued

Directors' share options

The directors' interests in share options are:

	Option price (p)	Number granted	Date of grant
C M A Black	12	750,000	8 Dec 2005
	22	200,000	27 Apr 2007
	39	50,000	6 May 2008
	30	150,000	12 Sep 2008
	10	400,000	22 Dec 2009
	12	200,000	30 Nov 2010
Lord Daresbury	8	950,000	15 Jun 2011
	22	100,000	27 Apr 2007
	39	35,000	6 May 2008
	30	300,000	12 Sep 2008
	10	100,000	22 Dec 2009
	12	30,000	30 Nov 2010
D P Greef	8	150,000	15 Jun 2011
	22	100,000	27 Apr 2007
	39	20,000	6 May 2008
	30	15,000	12 Sep 2008
	6	300,000	25 Sep 2009
	12	100,000	30 Nov 2010
M A Eve	8	450,000	15 Jun 2011
	12	100,000	30 Nov 2010

No options were exercised by directors during the year.

Further details on share options are given in note 20 to the financial statements.

Directors' indemnities

The Company has qualifying third-party indemnity provisions for the benefit of its directors.

Substantial shareholdings

Other than the directors' interests shown above, the share register shows the following substantial interests as at 4 January 2012:

	Ordinary shares of 1 pence each	
	Shareholding %	Number
BNY Mellon Nominees Limited	13.16	6,675,000
Octopus Investments Nominees Limited	11.58	5,875,000
Pershing Nominees Limited	4.95	2,510,000
Redmayne (Nominees) Limited	3.62	1,903,622
HSBC Global Custody Nominee (UK) Limited	3.35	1,698,495

Post-balance sheet events

There are no significant post-balance sheet events arising since 30 September 2011.

Directors' report – continued

Policy and practice on the payment of creditors

The policy of the Group is to settle supplier invoices within the terms and conditions of trade agreed with individual suppliers. At the year-end the Group had an average of 59 days (2010: 57 days) purchases outstanding.

Political and charitable donations

The Group made no political or charitable donations in the year (2010: nil).

Going concern

The directors can report that based on the Group's budgets and financial projections, they have satisfied themselves that the business is a going concern. The Board has a reasonable expectation that the Company and Group have adequate resources and facilities to continue in operational existence for the foreseeable future and therefore the accounts are prepared on a going concern basis.

Auditors

In the case of each person who was a director at the time this report was approved:

- so far as that director was aware there was no relevant available information of which the Company's auditors were unaware; and
- that director has taken all steps that the director ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

Gerald Edelman have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.

Directors' report – continued

Corporate Governance

The Board is committed to maintaining high standards of corporate governance and is accountable to the Company's shareholders for good corporate governance. This statement describes how the principles of corporate governance are applied to the Company.

Board Meetings

The Board meets at least four times per year excluding the AGM. The Chief Executive Officer maintains frequent communication with the Chairman and directors to ensure that they are kept up to date with the operations of the Group and to benefit from their advice.

The Board is responsible to shareholders for the proper management of the Group. A statement of the directors' responsibilities in respect of the accounts is set out below.

The Audit Committee

The Audit Committee during the year comprised Lord Daresbury and Damion Greef and was chaired by Lord Daresbury. The Audit Committee is responsible for reviewing a wide range of matters, including half-year and annual results before their submission to the Board, and for monitoring the controls that are in force to ensure the integrity of information reported to shareholders. The Committee advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and discusses the nature, scope and results of the audit with the external auditors. The Committee keeps under review the cost-effectiveness and the independence and objectivity of the external auditors.

The Remuneration Committee

The Remuneration Committee during the year comprised Lord Daresbury and Tony Eve and was chaired by Lord Daresbury. The Remuneration Committee is responsible for reviewing the performance of the executive directors and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders and the performance of the Group. The Remuneration Committee is also responsible for determining allocations of any share options.

Details of Directors' remuneration are set out in notes 8 and 27.

Directors' report – continued

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have, as required by the AIM Rules of the London Stock Exchange, elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and have also elected to prepare the Parent Company financial statements in accordance with those standards. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that year. In preparing these 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 the financial statements have been prepared in accordance with IFRSs as adopted by the European Union; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of 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 United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

Annual General Meeting

Notice of the Annual General Meeting of the Company for 2011 is attached with these financial statements.

Approved by the Board and signed on its behalf by:

M A Eve
Company Secretary
6 January 2012

Registered office:
14-18 Old Street
London EC1V 9BH

Independent auditor's report to the shareholders of Nasstar plc

We have audited the Consolidated financial statements of Nasstar plc for the year ended 30 September 2011 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements of cash flows, the Consolidated and Company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 30 September 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Nasstar plc
Report and financial statements for the year ended 30 September 2011

Independent auditor's report to the shareholders of Nasstar plc - continued

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

E Zekia (senior statutory auditor)

for and on behalf of Gerald Edelman

Chartered Accountants

Statutory auditor

London

6 January 2012

Nasstar plc
Report and financial statements for the year ended 30 September 2011

Consolidated statement of comprehensive income

	Note	2011 £000	2010 £000
Revenue	4	2,257	2,350
Cost of sales		(1,001)	(1,108)
Gross profit		<u>1,256</u>	<u>1,242</u>
Operating and administrative expenses		(1,268)	(1,358)
Share-based payments	20	(38)	(42)
Total operating and administrative expenses		<u>(1,306)</u>	<u>(1,400)</u>
Operating loss	6	(50)	(158)
Finance charges	10	(92)	(144)
Finance income		2	-
Loss before taxation		<u>(140)</u>	<u>(302)</u>
Taxation	11	29	-
Loss for the year and total comprehensive income for the year attributable to shareholders		<u>(111)</u>	<u>(302)</u>
Loss per share:			
Basic and diluted	12	<u>(0.3)p</u>	<u>(0.9)p</u>

All amounts relate to continuing operations.

The notes on pages 18 to 42 form part of these financial statements.

Statements of financial position

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Assets					
Non-current assets					
Goodwill	13	844	844	-	-
Intangible assets	14	281	226	-	-
Property, plant and equipment	15	253	287	-	-
Investment	16	-	-	1,158	1,158
Deferred taxation	22	175	175	-	-
		<u>1,553</u>	<u>1,532</u>	<u>1,158</u>	<u>1,158</u>
Current assets					
Trade and other receivables	17	444	460	1,932	1,677
Cash and cash equivalents	18	814	5	733	1
		<u>1,258</u>	<u>465</u>	<u>2,665</u>	<u>1,678</u>
Total assets		<u>2,811</u>	<u>1,997</u>	<u>3,823</u>	<u>2,836</u>
Equity and liabilities					
Capital and reserves attributable to equity holders of the parent					
Share capital	19	507	357	507	357
Share premium		3,689	2,706	3,689	2,706
Merger reserve		662	662	-	-
Retained deficit		(2,548)	(2,475)	(503)	(397)
Total equity		<u>2,310</u>	<u>1,250</u>	<u>3,693</u>	<u>2,666</u>
Non-current liabilities					
Interest-bearing loans and borrowings	21	43	98	41	76
Current liabilities					
Interest-bearing loans and borrowings	21	94	157	73	73
Trade and other payables	23	364	492	16	21
		<u>458</u>	<u>649</u>	<u>89</u>	<u>94</u>
Total equity and liabilities		<u>2,811</u>	<u>1,997</u>	<u>3,823</u>	<u>2,836</u>

The financial statements were approved and authorised for issue by the Board of Directors on 6 January 2012 and signed on its behalf by:

C M A Black, Chief Executive

M A Eve, Finance Director

The notes on pages 18 to 42 form part of these financial statements.

Statements of changes in equity

Group	Share Capital £000	Share Premium £000	Merger Reserve £000	Retained Deficit £000	Total Equity £000
At 1 October 2009	319	2,404	662	(2,215)	1,170
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	-	(302)	(302)
Total comprehensive income for the year	-	-	-	(302)	(302)
Shares issued in year	38	305	-	-	343
Expenses of share issue	-	(3)	-	-	(3)
Share-based payment recognised in equity (note 20)	-	-	-	42	42
At 1 October 2010	357	2,706	662	(2,475)	1,250
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	-	(111)	(111)
Total comprehensive income for the year	-	-	-	(111)	(111)
Shares issued in year	150	1,050	-	-	1,200
Expenses of share issue	-	(67)	-	-	(67)
Share-based payment recognised in equity (note 20)	-	-	-	38	38
At 30 September 2011	507	3,689	662	(2,548)	2,310
	Attributable to equity holders of the Company				
Company	Share Capital £000	Share Premium £000	Retained Deficit £000	Total Equity £000	
At 1 October 2009	319	2,404	(323)	2,400	
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	(116)	(116)	
Total comprehensive income for the year	-	-	(116)	(116)	
Shares issued in year	38	302	-	340	
Expenses of share issue	-	(3)	-	(3)	
Share-based payment recognised in equity (note 20)	-	-	42	42	
At 1 October 2010	357	2,706	(397)	2,666	
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	(144)	(144)	
Total comprehensive income for the year	-	-	(144)	(144)	
Shares issued in year	150	1,050	-	1,200	
Expenses of share issue	-	(67)	-	(67)	
Share-based payment recognised in equity (note 20)	-	-	38	38	
At 30 September 2011	507	3,689	(503)	3,693	

The following describes the nature and purpose of each reserve within owners' equity:

Share capital	Amount subscribed for shares at nominal value.
Share premium	Amount subscribed for share capital in excess of nominal value.
Merger reserve	Amounts arising from the merger of subsidiary investments.
Retained deficit	Cumulative profit/(loss) of the Group/Company attributable to equity shareholders.

The notes on pages 18 to 42 form part of these financial statements.

Statements of cash flows

	Note	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Cash flow from operating activities					
Operating loss before taxation	6	(50)	(158)	(120)	(104)
Adjustments for:					
Depreciation and amortisation	14,15	348	417	-	-
Share-based payments	20	38	42	38	42
Corporation tax receipts	11	29	-	-	-
Net cash flow from operating activities before changes in working capital		365	301	(82)	(62)
Decrease/(increase) in trade and other receivables		16	8	(255)	(841)
Decrease in trade and other payables		(128)	(580)	(5)	(130)
Net cash flow from operating activities		253	(271)	(342)	(1,033)
Investing activities					
Payments for intangible assets	14	(204)	(168)	-	-
Payments for property, plant and equipment	15	(165)	(151)	-	-
Net cash flow from investing activities		(369)	(319)	-	-
Financing activities					
Issue of ordinary shares		1,200	343	1,200	343
Expenses of issue of ordinary shares		(67)	(3)	(67)	(3)
Proceeds from lease-finance arrangements		21	73	21	58
Repayment of lease-finance arrangements		(107)	(175)	(24)	(18)
Proceeds from new bank loan		-	101	-	101
Repayment of bank loan		(32)	-	(32)	-
Interest paid	10	(92)	(144)	(26)	(12)
Interest received		2	-	2	-
Net cash flow from financing activities		925	195	1,074	469
Net increase/(decrease) in cash and cash equivalents in the year		809	(395)	732	(564)
Cash and cash equivalents at the beginning of the year	18	5	400	1	565
Cash and cash equivalents at the end of the year	18	814	5	733	1

The notes on pages 18 to 42 form part of these financial statements.

Notes to the financial statements

1 Basis of preparation and significant accounting policies

Nasstar plc (the 'Company') is a company domiciled in the United Kingdom and is quoted on the AIM market of the London Stock Exchange. The consolidated financial statements of the Company for the year ended 30 September 2011 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the provision of hosted software services.

These consolidated financial statements of Nasstar plc have been prepared in accordance with International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations (collectively IFRSs) as adopted for use in the European Union and as issued by the International Accounting Standards Board and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on the assumption that the Group is a going concern. The financial statements show a loss for the period of £111,000 and net current assets of £800,000. At the date of the financial statements, the Group's ability to continue as a going concern reflects the net funds available to the Group at the year end and the forecasts for the following eighteen months. On this basis, in the opinion of the Directors, the financial statements have been properly prepared on the assumption that the Group is a going concern.

Companies Act s408 exception

The Company has taken advantage of the exemptions allowed under section 408 of the Companies Act 2006 and has not presented its own income statement in these financial statements. The Group loss for the year included a loss on ordinary activities after tax of £144,000 (2010: loss £116,000) in respect of the Company.

The following standards have been applied by the Group from 1 October 2010

- Improvements to IFRSs (endorsed by the European Union in February 2011).
- Revised IAS 24 Related party disclosures (Endorsed by the European Union (EU) in July 2010).

There has been no material impact on the group arising from the adoption of these standards.

IFRS effective in 2011 but not relevant

The following standards and interpretations were mandatory for the current accounting period, but are not relevant to the operations of the Group:

- Amendments to IFRS 1 Limited Exemption from Comparative IFRS7 Disclosures for First-time adopters.
- Amendment to IFRIC 14 Prepayments of a Minimum Funding Requirement.
- IFRIC19 Extinguishing Financial Liabilities with Equity Instruments.

Notes to the financial statements continued

1 Basis of preparation and significant accounting policies - continued

Standards and interpretations issued but not yet applied

Any standards and interpretations that have been issued but are not yet effective have not been applied by the group in these financial statements. Application of these Standards and Interpretations will not have a material effect on the financial statements in future periods.

Basis of consolidation

The consolidated financial statements include the results of the Company and all of its subsidiary undertakings. A subsidiary is an entity controlled, directly or indirectly, by the Group. Control is the power to govern the financial and operating policies of the entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The results of subsidiaries have been included from the date of acquisition using the purchase method of accounting.

The consolidated financial statements present the results of the Company and its subsidiaries ('the Group') as if they formed a single entity. Inter-company transactions and balances between Group companies are therefore eliminated in full. All subsidiaries have a co-terminous year-end.

Merger accounting

In accordance with the exemption in IFRS 1, where merger accounting has been used for the relevant acquisition in years prior to the transition date to IFRS of 1 July 2006, the accounting method used for the relevant acquisition has not been restated.

Business combinations and goodwill

The consolidated financial statements incorporate the results of business combinations using the purchase method. The cost of an acquisition is measured as an aggregate of the consideration transferred, measured at the acquisition date fair-value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree either at fair-value or at the proportionate share of the acquiree's identifiable net assets. Subsequent changes in the proportion of the non-controlling interests, which do not result in derecognition of the subsidiary, are accounted for in equity.

Acquisition costs are expensed when incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. If the business combination is achieved in stages, the acquisition date fair-value of the Group's previously-held equity interest in the acquiree is re-measured to fair-value as at the acquisition date through profit and loss.

Any contingent consideration to be transferred by the Group is recognised at fair-value on the acquisition date. Subsequent changes to the fair-value of the contingent consideration, which is deemed to be an asset or a liability, will be recognised in accordance with IAS39 either in profit or loss or as change in other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled in equity.

Notes to the financial statements continued

Basis of preparation and significant accounting policies - continued

Business combinations and goodwill continued

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any recognised impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to either the acquired business or to each of the Group's cash generating units that are expected to benefit from the combination irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms a part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Goodwill arising from business combinations is assessed for impairment annually.

The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained.

Investments in subsidiaries

Investments in subsidiary undertakings are shown at cost less provisions for impairment in value.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in profit or loss in the year in which the expenditure is incurred.

Intangible assets are amortised over a period of 2 to 4 years.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Notes to the financial statements continued

1 Basis of preparation and significant accounting policies - continued

Research and development costs

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Property, plant and equipment

Property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful economic life as follows:

Computer equipment & software development	over three years on straight-line basis
Fixtures & fittings	25% on straight-line basis
Office equipment	25% on straight-line basis

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the asset is derecognised. The asset's residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. In determining fair value less costs to sell, an appropriate valuation model is used.

Notes to the financial statements continued

1 Basis of preparation and significant accounting policies - continued

Impairment of non-financial assets continued

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

The Group assesses whether there are any indicators that goodwill is impaired at each reporting date. Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment losses previously recognised in respect of goodwill are not reversed.

Financial instruments

Financial assets

The Group classifies its financial assets into one of the categories discussed below, depending on the purpose for which the asset was acquired.

Trade and other receivables: These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services but also incorporate other types of contractual monetary assets. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

Cash and cash equivalents: These include cash in hand, deposits held at call with banks and similar financial institutions. Bank overdrafts are not offset unless permitted by a specific agreement with the provider of the overdraft.

Financial liabilities

The Group classifies its financial liabilities as:

Interest-bearing loans and borrowings: The Group's financial liabilities at amortised cost comprise lease finance arrangements from financial institutions. These are initially recognised at fair value and subsequently carried at amortised cost using the effective interest rate method.

Trade and other payables: These are initially recognised at fair-value and then carried at amortised cost. They arise principally from the receipt of goods and services.

Notes to the financial statements continued

1 Basis of preparation and significant accounting policies - continued

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 future cash flows at a pre-tax rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The Group's revenues are derived from two primary sources: direct sales and sales to 'partner' organisations and each are either billed monthly in arrears or according to terms of any specific agreement with the relevant customer. 'Partner' customers have the contractual right to 'resell' the services provided by the Company in their own name. The Company has no involvement with these arrangements and only bills the 'Partner' customer for total usage.

Revenue arising from other contracted services provided to customers is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations.

Share-based payment transactions

Employees (including Directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

The cost of equity-settled transactions with employees, for awards granted after 7 November 2002, is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 20.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Notes to the financial statements continued

1 Basis of preparation and significant accounting policies - continued

Share-based payment transactions - continued

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance and/or service conditions are satisfied. Where the terms of an equity-settled award are modified, the minimum expense recognised is the expense as if the terms had not been modified. An additional expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (further details are given in note 12).

Leased assets

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lessee bears substantially all the risks and rewards relating to the ownership of the leased asset.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are charged directly against income. Depreciation on the relevant assets is charged to the statement of comprehensive income.

All other leases are treated as operating leases. Their annual rentals are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

Pensions

The Group only operates defined contribution pension schemes. Contributions are charged to profit and loss on an accruals basis for the relevant accounting period.

Notes to the financial statements continued

1 Basis of preparation and significant accounting policies - continued

Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in pounds sterling which is the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is pounds sterling.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in the statement of comprehensive income for the period.

The Group has no foreign operations.

Taxation

Income tax expense or taxation recoverable represents the sum of the tax currently payable or recoverable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of consolidated income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the date of the statement of financial position.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Group company or different Group entities which intend to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Notes to the financial statements continued

2 Significant accounting policies

The Group makes estimates and assumptions concerning the future, which by definition will seldom result in actual results that match the accounting estimate. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

(i) Valuation of Goodwill and other intangible assets

The value of the Group's goodwill and other intangible assets is dependent upon the success of the Group in exploiting its current technology and business base. The estimation of future revenue flows relating to these assets is uncertain and will also be affected by competition and potential new regulatory legislation and related requirements.

(ii) Share-based payments

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option-pricing model as set out in note 20.

(iii) Revenue recognition

In order to calculate the revenue recognised, the Group makes estimates of the value of services performed for customers and therefore of its right to the consideration for those services.

3 Exceptional items

Exceptional items are those significant items which are separately disclosed by virtue of their size and incidence to enable a full understanding of the financial performance.

4 Revenue

The Group has only one source of revenue, being the provision of software as a service. An analysis of the Group's revenue by destination market is as follows:

	2011	2010
	£000	£000
United Kingdom	1,991	2,124
Rest of the World	266	226
Total revenue	2,257	2,350

5 Segmental analysis

The Group operated in the year in one segment, the provision of software as a service, and in one market, the United Kingdom. The disclosures required by IFRS 8 Operating Segments relating to profits, losses, assets and liabilities of the segment are therefore shown by the financial statements as a whole. The Board receives financial reports and other related business information prepared on this basis.

The Group had thirty-three overseas customers in the year.

Notes to the financial statements continued

6 Operating loss

	2011	2010
	£000	£000
Operating loss of the Group for the year is stated after charging:		
Amortisation of intangible assets (note 14)	149	138
Depreciation of plant and equipment (note 15)	199	279
Staff costs (note 7)	703	708
Auditors' remuneration (note 9)	17	14
Operating lease rentals	23	31

7 Staff numbers and costs

The average number of persons, excluding the directors, was:

	2011	2010
	Number	Number
Technical	6	6
Sales	2	2
Administration & customer service	7	5
	15	13

Staff costs for the above persons, including executive and non-executive directors were:

	2011	2010
	£000	£000
Wages and salaries	597	599
Social security costs	68	67
Share-based payments	38	42
	703	708

8 Directors' emoluments

Directors' emoluments for the year were as follows:

	2011	2010
	£000	£000
Salaries and fees	215	285
Share-based payments	37	28
	252	313

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest-paid director was £132,000 (2010: £157,000).

There are no key management personnel other than the directors. Directors' emoluments analysed by director are shown in note 28.

Notes to the financial statements continued

9 Auditors' remuneration (Group and Company)

	2011	2010
	£000	£000
Fees payable for the audit of the Group's financial statements	13	12
Fees payable for tax compliance	4	2
	<hr/>	<hr/>
	17	14
	<hr/>	<hr/>

10 Finance expense

	2011	2010	2011	2010
	Group	Group	Company	Company
	£000	£000	£000	£000
Bank interest payable	9	12	4	4
Finance lease interest payable	40	62	20	8
Other finance costs	43	70	2	-
	<hr/>	<hr/>	<hr/>	<hr/>
	92	144	26	12
	<hr/>	<hr/>	<hr/>	<hr/>

Other finance costs represent amortised borrowing costs.

Notes to the financial statements continued

11 Taxation	2011	2010
	£000	£000
UK Corporation tax		
Current tax on income for the year at 20%	-	-
Taxation recovered in respect of Research and Development claim	(29)	-
	<hr/>	<hr/>
Current tax charge for the year	(29)	-
Deferred taxation		
Deferred taxation current year (see note 22)	-	-
	<hr/>	<hr/>
Tax credit on loss on continuing operations	(29)	-
	<hr/>	<hr/>

The difference between the total tax expense shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2011	2010
	£000	£000
Loss before tax	(140)	(302)
	<hr/>	<hr/>
Loss on continuing operations multiplied by the standard rate of corporation tax in the UK of 20% (2010: 21%)	(28)	(63)
Expenses not deductible for tax purposes	1	1
Other timing differences	39	53
Loss brought forward/carried forward	15	9
Research & Development claim	(27)	-
	<hr/>	<hr/>
Tax credit on loss on continuing operations	-	-
	<hr/>	<hr/>

Factors that may affect the future tax charge

Unrelieved tax losses of approximately £1,828,000 (2010: £1,802,000) are available to offset against future taxable profits of the Group.

12 Loss per share

The calculation of the basic loss per share arising is based upon the loss after tax attributable to ordinary shareholders of £111,000 (2010: loss £302,000) and a weighted average number of shares in issue for the year of 40,212,676 (2010: 34,185,643).

The diluted loss per share in 2011 and 2010 is the same as the basic loss per share as the losses have an anti-dilutive effect.

Notes to the financial statements continued

13 Goodwill

Group
£000

At 30 September 2010 and 30 September 2011

844

The goodwill is attributable to the Group's sole business segment (see also note 5) which is also the cash-generating-unit level at which it is assessed for impairment. The carrying value of goodwill has been determined using a discounted cash flow projection and on a value-in-use basis.

The significant assumptions used within the projections, which are based upon the past experience of the Directors, were:

	2011	2010
Period of projection	5 years	5 years
Discount rate (pre-tax)	10%	4.5%
Sales growth rates	1.3% to 16.0%	2.8 to 5.6%
Sales price deflation	(3%)	(13%)
Cost inflation	2.3%	2.5%

The discount rate used has been increased to 10% (2010: 4.5%) to reflect the Company's current anticipated funding rate at the expected level of risk.

The effects of changes in the key assumptions used within the projections are set out below:

	Rate	Carrying value
A change in discount rate would have the following estimated effect:	%	£000
	7.5%	2,890
	10.0%	2,657
	12.5%	2,446
	15.0%	2,253
	17.5%	2,078
	20.0%	1,918

A decrease in selling prices would have the following estimated effect (discount rate 10.0%):

	Selling prices	Potential impairment
	%	£000
	(25%)	-
	(30%)	(321,000)
	(35%)	(715,000)
	(40%)	(844,000)

An increase in variable cost prices would have the following estimated effect (discount rate 10.0%):

	Cost prices	Potential impairment
	%	£000
	30%	-
	35%	(148,000)
	40%	(509,000)
	45%	(844,000)

Notes to the financial statements continued

14 Intangible assets

Group	Website £000	Computer Software £000	Total £000
Cost			
At 1 October 2009	68	350	418
Additions	2	166	168
At 30 September 2010	70	516	586
Additions	-	204	204
At 30 September 2011	70	720	790
Amortisation			
At 1 October 2009	(55)	(167)	(222)
Amortisation	(13)	(125)	(138)
At 30 September 2010	(68)	(292)	(360)
Amortisation	(2)	(147)	(149)
At 30 September 2011	(70)	(439)	(509)
Net book value			
At 30 September 2011	-	281	281
At 30 September 2010	2	224	226
At 1 October 2009	13	183	196

Notes to the financial statements continued

15 Property, plant and equipment

Group	Computer equipment £000	Office equipment and fixtures £000	Total £000
Cost			
At 1 October 2009	1,218	68	1,286
Additions	149	2	151
Disposals	(301)	(12)	(313)
At 30 September 2010	1,066	58	1,124
Additions	157	8	165
At 30 September 2011	1,223	66	1,289
Depreciation			
At 1 October 2009	(821)	(50)	(871)
Charge for the year	(268)	(11)	(279)
Disposals	301	12	313
At 30 September 2010	(788)	(49)	(837)
Charge for the year	(192)	(7)	(199)
At 30 September 2011	(980)	(56)	(1,036)
Net book value			
At 30 September 2011	243	10	253
At 30 September 2010	278	9	287
At 1 October 2009	397	18	415

Included within property, plant and equipment are the following amounts held under finance leases:

	Cost £000	Depreciation £000	Net book value £000
At 30 September 2011 Computer equipment	657	584	73
At 30 September 2010 Computer equipment	648	460	188

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Notes to the financial statements continued

16 Investment	Shares in subsidiaries £000
Cost	
At 30 September 2010 and 30 September 2011	1,158

Details of the investment are as follows:

	Country of incorporation and operation	Activity	Percentage of ordinary shares held
Nasstar (UK) Limited	United Kingdom	Application Service Provider	100%

17 Trade and other receivables	2011 Group £000	2010 Group £000	2011 Company £000	2010 Company £000
Trade debtors	307	290	-	-
Amounts owed by Group companies	-	-	1,918	1,661
Prepayments	106	87	8	9
Other debtors	31	83	6	7
	<hr/> 444	<hr/> 460	<hr/> 1,932	<hr/> 1,677
Included above are amounts due in more than one year of:	-	26	-	-

There were no trade and other receivables that were past due or considered to be impaired. The trade and other receivables balances are categorised as trade and other receivables. There is no significant difference between the fair value of the trade and other receivables and the values stated above.

18 Cash and cash equivalents	2011 Group £000	2010 Group £000	2011 Company £000	2010 Company £000
Cash at bank	814	5	733	1

There is no significant difference between the fair value of the cash and cash equivalents and the values stated above. There is no material foreign exchange movement in respect of cash and cash equivalents. Cash and cash equivalents comprise of cash.

Notes to the financial statements continued

19 Share capital	2011 Group and Company £000	2010 Group and Company £000
Called up, allotted and fully paid:		
50,733,224 (2010: 35,733,224) ordinary shares of 1p each	507	357

There has been the following change in the issued share capital during the year:

On 14 June 2011, the Company issued 15,000,000 ordinary shares of 1p each at a price of 8p each.

20 Share-based payments (Group and Company)

Equity-settled share option scheme.

The Company issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value of options granted has been calculated with reference to the Black-Scholes option pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

The Company has established two share option schemes, an EMI Option Scheme and an Unapproved Option Scheme, under the rules of which the number of shares under option at any one time will not exceed 12% of the Company's issued share capital from time to time. All shares issued on exercise of option shall rank pari passu in all respects with the Company's existing shares, save that the shares issued will not rank for any dividends or other distributions declared or recommended prior to the date when the option is exercised. The options will each vest and thereby become exercisable on the second anniversary of the date of grant with no performance conditions a requirement of exercise. All options will lapse on the tenth anniversary of grant.

Notes to the financial statements continued

20 Share-based payments (Group and Company) continued

EMI Options and Unapproved Options (together the Options) have been granted over 6,022,500 (2010: 3,754,500) ordinary shares in aggregate to directors and staff under the schemes, representing approximately 11.9% of the issued share capital as at 30 September 2011, as set out below:

30 September 2011	No. of share options	Weighted average exercise price (pence)	Price range (pence)	Weighted average contract life (years)
Outstanding at beginning of year	3,754,500	15.2	6 to 39	
Granted during the year	2,320,000	8.9	8 to 12	
Cancelled during the year	(52,000)	12.0	12	
Outstanding at the end of the year	6,022,500	12.8	6 to 39	7.80
Exercisable at the end of the year	3,002,500	16.7	6 to 39	

30 September 2010	No. of share options	Weighted average exercise price (pence)	Price range (pence)	Weighted average contract life (years)
Outstanding at beginning of year	3,104,500	16.8	6 to 39	
Granted during the year	700,000	10.0	10	
Cancelled during the year	(50,000)	39.0	39	
Outstanding at the end of the year	3,754,500	15.2	6 to 39	7.64
Exercisable at the end of the year	2,004,500	21.4	12 to 39	

As at 30 September 2011, outstanding options granted under the share option schemes were as follows:

Date of grant	Exercise period	2011 No.	2010 No.	Exercise price (pence)
08 Dec 2005	Dec 2007 - Dec 2015	750,000	750,000	12
19 Dec 2005	Dec 2007 - Dec 2015	107,500	107,500	24
20 Dec 2005	Dec 2007 - Dec 2015	-	52,000	12
27 Apr 2007	Apr 2009 - Apr 2017	400,000	400,000	22
06 May 2008	May 2010 - May 2018	230,000	280,000	39
12 Sep 2008	Sep 2010 - Sep 2018	465,000	465,000	30
25 Sep 2009	Sep 2011 - Sep 2019	1,050,000	1,050,000	6
22 Dec 2009	Dec 2011 - Dec 2019	700,000	700,000	10
30 Nov 2010	Nov 2012 – Nov 2020	530,000	-	12
15 Jun 2011	Jun 2013 – Jun 2021	1,790,000	-	8
		6,022,500	3,754,500	

Notes to the financial statements continued

20 Share-based payments (Group and Company) continued

Inputs into the Black-Scholes option pricing model were as follows:

	2011	2010
Weighted average share price in pence	15.3	18.8
Weighted average exercise price in pence	15.3	18.8
Expected volatility	55%	45%
Expected life in years	3.5	3.5
Risk-free rate	3%	4.4%
Expected dividends	None	None
Fair value of options granted	3.4p	3p
	Group and Company 2011 £000	Group and Company 2010 £000
The charge to profit and loss for the year	38	42

Expected volatility was determined by calculating the volatility in the share price over the 12 months to 30 September 2011 for options granted in the year to 30 September 2011.

21 Interest-bearing loans and borrowings

Non-current

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Bank borrowings	30	64	30	64
Lease finance obligations	13	34	11	12
	43	98	41	76

Current

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Bank borrowings	39	37	39	37
Lease finance obligations	55	120	34	36
	94	157	73	73

The fair-value of interest-bearing borrowings is shown in note 24. The directors consider that there is no material difference between the book values and fair values of interest-bearing liabilities.

Notes to the financial statements continued

21 Interest-bearing loans and borrowings continued

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the date of the statement of financial position and the periods in which they mature or, if earlier, are repriced. Amounts shown are capital and interest repayments.

Group	Effective interest rate	Total	Current	1-2 years	2-5 years
		2011 £000	2011 £000	2011 £000	2011 £000
Cash at bank and other deposits	0.5%	818	818	-	-
Lease finance facilities	12.30%	68	55	13	-
		2010 £000	2010 £000	2010 £000	2010 £000
Cash at bank and other deposits	0.5%	5	5	-	-
Lease finance facilities	12.21%	224	152	72	-
Company	Effective interest rate	Total	Current	1-2 Years	2-5 years
		2011 £000	2011 £000	2011 £000	2011 £000
Cash at bank and other deposits	0.0%	736	736	-	-
Lease finance facilities	10.60%	45	323	11	-
		2010 £000	2010 £000	2010 £000	2010 £000
Cash at bank and other deposits	0.0%	1	1	-	-
Lease finance facilities	14.69%	52	23	29	-

Notes to the financial statements continued

22 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Accelerated capital allowances	(4)	(4)	-	-
Tax losses	169	169	-	-
Other timing differences	10	10	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Deferred tax asset	175	175	-	-
Analysed as:				
At beginning and end of year	175	175	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Disclosed as:				
Non-current assets	175	175	-	-

Deferred taxation not provided in the financial statements is as follows:

	Group 2011 £000	Group 2010 £000	Company 2011 £000	Company 2010 £000
Tax losses	306	212	106	55
Other timing differences	-	28	-	-
Accelerated capital allowances	(6)	51	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	300	291	106	55

The Group has unrecognised tax losses of approximately £1.828m (2010: £1.802m). Trading forecasts indicate that these losses will be utilised against trading profits within five years.

23 Trade and other payables

	2011	2010	2011	2010
	Group £000	Group £000	Company £000	Company £000
Trade payables	239	164	5	7
Other tax and social security	67	136	-	-
Other creditors	-	11	-	3
Accruals and deferred income	58	181	11	11
	<hr/>	<hr/>	<hr/>	<hr/>
	364	492	16	21

There is no material difference between the fair value and book value of trade and other payables.

Notes to the financial statements continued

24 Financial instruments

In common with other businesses, the Group and Company (collectively the Group) is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The significant accounting policies regarding financial instruments are disclosed in note 1.

Substantive changes to the Group's exposure to interest-bearing indebtedness are disclosed below. Proceeds from the issue of the Company's shares have been utilised to provide working capital and to reduce borrowings within the Group. There have been no other substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks, or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:

Group	2011 £000	2010 £000
Trade receivables	307	290
Other receivables	31	83
Cash and cash equivalents	814	5
Trade and other payables	(239)	(175)
Interest-bearing loans and borrowings	(137)	(255)
Company	2011 £000	2010 £000
Other receivables	1,924	1,668
Cash and cash equivalents	733	1
Trade and other payables	(5)	(10)
Interest-bearing loans and borrowings	(114)	(149)

General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, while retaining ultimate responsibility for them, has delegated authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives regular reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

Notes to the financial statements continued

Credit risk

Credit risk arises principally from the Group's trade and other receivables and cash and cash equivalents. It is a risk that the counterparty fails to discharge its obligation in respect of the instrument. The maximum exposure to credit risk equals the carrying value of these items in the financial statements.

Liquidity risk

Liquidity risk arises principally from the Group's management of working capital and the amount of funding committed to its software and hardware platforms. It is a risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. The principal liabilities of the Group and Company arise in respect of operational and administrative expenditure, trade and other payables and the servicing of interest-bearing debt which comprises lease finance obligations. Trade and other payables are all payable within four months.

Further discussion of the Group's liquidity position is set out in the Directors' Report and further information in respect of the Group and Company interest-bearing indebtedness is disclosed in note 21.

The Board receives cash flow projections on a regular basis as well as information on cash balances.

Interest rate risk

The Group is exposed to interest rate risk in respect of surplus funds held on deposit. The Board does not currently undertake hedging arrangements.

Interest rate table

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's loss before tax (through the impact on floating rate borrowings) and cash flows. There is no impact on the Group's equity.

	Change in rate	2011 £	Change in rate	2010 £
Sterling	- 0.5%	683	- 0.5%	1,277
	- 1.0%	1,366	- 1.0%	2,555
	- 1.5%	2,049	- 1.5%	3,832
Sterling	+ 0.5%	(683)	+ 0.5%	(1,277)
	+ 1.0%	(1,366)	+ 1.0%	(2,555)
	+ 1.5%	(2,049)	+ 1.5%	(3,832)

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Notes to the financial statements continued

Fair value of financial liabilities	2011 £000	2010 £000
Obligations under lease finance arrangements	137	255
Trade and other payables	239	175
	376	430

The fair value of obligations under lease finance arrangements and of trade and other payables is equal to the book values.

Capital

The Group considers its capital to comprise its ordinary share capital, share premium, merger reserve and the retained deficit as its capital reserves. In managing its capital, the Group's primary objective is to provide a return for its equity shareholders through capital growth. Going forward the Group will seek to maintain a gearing ratio that balances risks and returns at an acceptable level and also to maintain a sufficient funding base to enable the Group to meet its working capital needs.

Details of the Group and Company capital are disclosed in the Group and Company statements of changes in equity.

There have been no other significant changes to the Group's management objectives, policies and processes in the year nor has there been any change in what the Group considers to be capital.

Currency risk

The Group and the Company are not exposed to any significant currency risk.

25 Operating lease commitments	2011	2010	2011	2010
	Group £000	Group £000	Company £000	Company £000
Expiry date:				
Within one year	-	-	-	-
Between one and two years	-	-	-	-
Between two and five years	22	26	-	-
	22	26	-	-

Operating lease obligations comprise property rentals.

26 Post-balance sheet events

There are no significant post-balance sheet events arising since 30 September 2011.

27 Capital commitments

As at 30 September 2011, capital expenditure of £52,976 has been contracted for but not included in fixed assets.

Notes to the financial statements continued

28 Related-party transactions

Directors' emoluments are required to be disclosed as related-party transactions. The directors received the following emoluments in the year:

	Salary and fees	Share-based payments	Total	Salary and fees	Share-based payments	Total
	2011	2011	2011	2010	2010	2010
	£000	£000	£000	£000	£000	£000
Lord Daresbury	10	6	16	50	6	56
C M A Black	110	22	132	140	17	157
D P Greef	70	8	78	70	5	75
M A Eve	25	1	26	25	-	25
	215	37	252	285	28	313

M A Eve's remuneration is paid to DFM Limited (trading as FD Solutions), of which he is an employee. At 30 September 2011 £nil (2010: £nil) was outstanding to FD Solutions.