



Nasstar plc

Report and financial statements for the year ended 30 September 2008

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Nasstar plc
Report and financial statements for the year ended 30 September 2008

Directors, secretary and advisers

Directors

The Lord Daresbury
C M A Black
K L Bird
M A Eve
D P Greef
R P Francis

Non-executive Chairman
Chief Executive
Sales Director
Finance Director
Non-executive Director
Non-executive Director

Secretary

M A Eve

Company registration number

5623736

Registered office

14 - 18 Old Street
London
EC1V 9BH

Nominated adviser & broker

Ambrian Partners Limited
Old Change House
128 Queen Victoria Street
London
EC4V 4BJ

Registrars

Neville Registrars Limited
Neville House, 18 Laurel Lane
Halesowen
B63 3DA

Solicitors

Marriott Harrison
Staple Court
11 Staple Inn Buildings
London
WC1V 7QH

Auditors

Gerald Edelman
25 Harley Street
London
W1G 9BR

Principal Bankers

Barclays Bank plc
PO Box 35721
Level 27, 1 Churchill Place
London
BX3 2BB

Chairman's statement

Highlights

- Turnover increased 75% to £2.1m (2007: £1.2m)
- Positive EBITDA of £241,000 (2007: loss of £101,000)
- Operating profit £32,000 (2007: loss of £364,000)
- Nasstar Hosted Desktop voted CNET UK Business Application of the Year 2008
- Partner Programme to enable service providers to sell Nasstar Hosted Desktop now ready for launch
- Contract wins include a four-year contract with Allied Healthcare (Nasdaq: AHCI, AIM: AHI) for 800 Hosted Desktop users and a three-year contract with Pinnacle Staffing Group plc (AIM: PCL) for 160 Hosted Desktop users

Chairman's Statement

I am pleased to report the results of the Company for the year ended 30 September 2008. Sales increased to £2.1m from £1.2m and the Company has made its first positive EBITDA. The change in sales focus to Nasstar Hosted Desktop took place in the second half of the year with the launch of the new website. The Board believes that the market for Nasstar Hosted Desktop will continue to grow and that the partner programme being launched will enable the Company to further enhance sales. The partner programme will enable other service providers to market the award-winning Nasstar Hosted Desktop and thereby secure further market penetration for our product. Although the economy as a whole seems likely to experience challenging conditions during 2009 we believe Nasstar Hosted Desktop is likely to be attractive in such conditions as prospective customers look for cost savings. Given the fast-growing market for cloud computing and the launch of our partner programme in addition to direct sales we are confident about future growth prospects.

The Lord Daresbury
Chairman
8 January 2009

Operational and financial review

Cloud computing takes shape

This year has seen an important change in our sales strategy as we shifted focus to Nasstar Hosted Desktop at a time when it wasn't clear how ready the market was for the product. The first version of Nasstar Hosted Desktop was launched in 2004 but required dedicated hardware for each new customer. As a result it was not scalable. In light of our view that Nasstar Hosted Desktop could be a mass market product we continued to invest time, staff and hardware in devising a scalable solution. The result was a 'multi-tenanted' system whereby the Nasstar Hosted Desktop platform was built as a single system which scaled easily as new customers were added to the platform. The first version of the multi-tenanted platform was released in late 2006 and further development continued in 2007 to refine the product. By December 2007 we were confident that Nasstar Hosted Desktop was ready for a proper marketing push. A new web site was developed and launched in March 2008 with a bullish PR campaign "the end of the IT department" to communicate that desktop computing was now a simple internet subscription service and didn't require a traditional on-premise IT support department.

There is compelling logic for buying Nasstar Hosted Desktop. Starting from the proposition that most businesses need core desktop computing then the only issue is how best to deliver that need. Put simply desktop computing can be delivered two ways: on-premise or over the internet. The latter delivers these services in the internet cloud - 'cloud computing' - and this is Nasstar's model. When one considers the benefits of the hosted desktop model compared to the traditional on-premise model then the hosted version wins on benefits. The key benefits of Nasstar Hosted Desktop are described below.

Value. Nasstar Hosted Desktop is a 'pay as you go' model for IT rather than a capital expenditure model. This means companies do not have to invest cash in their own servers and software licenses but instead can pay monthly for what they use. Not only does this approach save capital expenditure but it also ensures IT costs are predictable and transparent. In the current economic climate this is a far more attractive approach than the traditional capital expenditure model.

Security. Nasstar Hosted Desktop means that a company's data is stored in a secure data centre rather than on local PCs and laptops. There have been many stories in the media in the last year regarding lost laptops and therefore lost data. Nasstar Hosted Desktop means that no data is stored on local machines providing a more secure solution for your business data.

Simplicity. Although Nasstar Hosted Desktop is an innovative approach to delivering desktop computing the end user experience is very simple. The only requirements to be able to access your Nasstar Hosted Desktop - including all your applications and company data - are a web browser and an internet connection. Once logged in the user is faced with the familiar environment of a Microsoft Windows desktop and the business standard Microsoft Office applications including Word, Excel, Powerpoint and Outlook for email. So no re-training in new applications or a new environment is required.

Freedom. Nasstar Hosted Desktop enables you to access your desktop, applications and files from anywhere provided that you have an internet connection and web browser. This makes remote and flexible working strategies very simple. In a society concerned about the environment and the daily challenges of increased commuter congestion, many companies consider home working a more productive approach to growth and Nasstar's Hosted Desktop enables flexible working solutions to be implemented quickly and easily.

Scalability. Nasstar provides customers with a customer portal through which they can add and remove users very easily, making the solution extremely scalable.

Operational and financial review (continued)

In forming the view that it was the right time to focus sales on Nasstar Hosted Desktop, the Board took the view that whilst Hosted Exchange was a competitive market place, few providers have a hosted desktop solution. Our view was that cloud computing - delivering desktop plus applications and file storage in the internet cloud - is a huge growth market and it was better that we were pioneers and the only AIM pure play focussed on it than to sit back and wait for others to develop the market.

In terms of the number of subscribers live and being invoiced for Nasstar Hosted Desktop, sales increased by 500% during the period. In addition to these sales a number of contracts have been won that will ensure a substantial increase in the number of subscribers being invoiced during future periods.

The contracts we have been successful in winning include contracts for a significant number of users. These include the four-year contract with Allied Healthcare Group for 800 users in over 100 office locations and a three-year contract with Pinnacle Staffing Group plc for 160 users. The size of company adopting Hosted Desktop provides optimism for the future.

Despite the shift in focus to selling Nasstar Hosted Desktop, sales of Hosted Exchange email have still continued to grow with subscriber numbers increasing by 30% during the year.

Taking Nasstar Hosted Desktop to the wider market

Having successfully launched Nasstar Hosted Desktop during the year through direct selling Nasstar proposes to increase market size by selling not only directly but also through a partner programme which will extend market reach by enabling third-party service providers to sell Nasstar Hosted Desktop. We have been planning and developing the partner programme during the period, partly in response to interest and approaches from third parties interested in selling Nasstar Hosted Desktop as a pioneering product. The Board believes that Nasstar can obtain faster growth and a larger market share in a shorter space of time by enabling third party service providers to sell Nasstar Hosted Desktop.

Award winning Nasstar Hosted Desktop

Nasstar was pleased to win the CNET UK Networks Business Application of the Year 2008. This award, presented at the London Hilton hotel in September, is a significant recognition of the innovation that Nasstar has developed.

The Market & Competition

Nasstar Hosted Desktop is part of the 'Software as a Service' (SaaS) market which is growing at a fast pace. SaaS itself is part of a wider trend of internet growth, with TV, radio, telephone and music increasingly using the internet as a delivery platform. Worldwide revenues from SaaS are predicted to more than double between 2007 and 2011 to US\$11.5 billion (Gartner market research). The growth is being driven by a number of factors including low cost high speed internet connectivity and the belief of software vendors that revenues in the medium to longer term will be greater if they deliver their software as a service as opposed to a traditional box product. Larger companies involved in the developing market include Google, Amazon and Microsoft. In September 2008 Microsoft announced their future vision of cloud computing, delivering software over the internet from their data centres. HP, Intel and Yahoo have also recently announced a plan to develop cloud computing.

The Board believes that Nasstar Hosted Desktop has an important place in this fast developing market. This is because in addition to the standard Microsoft applications Nasstar Hosted Desktop also enables customers to access their other applications such as Sage accounting or Salesforce CRM software. As a result Nasstar is not tied to one particular software vendor but instead provides the platform through which customers can use not only the core Microsoft applications but industry specific or bespoke applications supplied by third parties.

Operational and financial review (continued)

At present there are other providers of hosted desktop but all appear to be small private companies and Nasstar has clearly established a strong reputation in the market place evidenced by the inbound interest from larger ISPs in the UK. Nasstar's proposal is to capture as large a part of the market as possible through its partner programme that will enable other ISPs and IT service companies to sell Nasstar Hosted Desktop rather than seeking to develop their own hosted desktop platform. The Directors believe that licensing the Nasstar Hosted Desktop platform will be attractive to potential entrants to the market who may prefer to adopt a proven platform rather than try and develop their own.

Operations

Nasstar has streamlined a number of operations this year to ensure even greater scalability. The web hosting contracts were disposed of in April. The logic of this was that hosting corporate web sites was no longer core business and there was a high risk that revenues from the remaining contracts would continue to decline. It therefore made sense to cash in on the contracts during the period and to use the proceeds for further working capital in developing the core business of Nasstar Hosted Desktop.

We have further developed the Customer Portal to enable customers to manage even more of their Hosted Exchange, BlackBerry and Nasstar Hosted Desktop services themselves. Such developments are welcomed by customers as they have more control over day to day maintenance. These developments also benefit Nasstar by reducing the volume of incoming support requests.

We launched new help desk software in April. The software provides a knowledge base that is updated by Nasstar support staff when resolutions are found to new problems. Customers benefit from this as they can find an answer to their support query without the need to raise a support ticket. Our statistics have shown that the number of support tickets per customer have fallen as a result.

Employees and overheads

The number of employees has remained constant and we do not envisage any significant increase in employee numbers.

Financial review and key performance indicators

Turnover increased by 75% to £2.1m in line with the Directors' expectations. The positive EBITDA is a result of the growth in sales of Nasstar Hosted Desktop and Hosted Exchange subscribers whilst maintaining stable overheads. Full information is set out in the Consolidated Income Statement.

Outlook

The market is moving towards cloud computing at a fast pace and Nasstar is well placed in this market to increase its subscriber base through both direct sales and through its partner programme. The Board is confident about the Company's strategy and future growth prospects.

Charles Black
Chief Executive Officer
8 January 2009

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2008.

Financial reporting

The financial statements for 2008 have been prepared in accordance with the Group's accounting policies under International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Group and Company adopted IFRSs with a transition date of 1 October 2006.

Results and dividends

The Group made a loss for the year after taxation of £132,000 (2007: loss of £486,000). Further details are shown in the Group Income Statement on page 14.

No dividends were paid during the year.

Principal activities

The principal activities of the Group continue to be that of Application Services Providers, supplying software as a service.

Review of the business

The review of the Group's activities and performance for the year and its prospects for 2009 are contained in the Chairman's statement on page 3 and the Operating and Financial Review on pages 4 to 6.

Capital structure

At 1 October 2007 the Company's issued share capital comprised 14,471,428 ordinary shares of 1 pence each. There have been the following changes in the issued share capital during the year:

- On 6 May 2008 205,128 ordinary shares were issued at a premium of 38p each
- On 28 July 2008 1,150,000 ordinary shares were issued at a premium 29p each
- On 15 August 2008 options on 270,000 ordinary shares were exercised at a premium of 11p each

Funds raised amounted to £457,000. 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 16,096,556 ordinary shares of 1p each.

Principal risks and uncertainties

The Group operates in a new business area based upon the "cloud processing concept" of internet access to working programmes and files. The Board is of the view that this is a business area with considerable growth potential. There is a risk that the growth in the Group's business will not meet current expectations.

As set out in last year's Annual Report, one risk highlighted was the risk of debtors taking time to pay. During the period the Company became an approved direct debit originator and implemented a direct debit scheme.

Further consideration of risks and uncertainties are set out in note 25 of these financial statements.

Directors' report (continued)

Directors

The following directors have held office since 1 October 2007:

Lord Daresbury
 C M A Black
 K L Bird
 D P Greef
 A R Malkin (resigned 6 December 2007)
 M A Eve (appointed 6 December 2007)
 R P Francis (appointed 28 April 2008)
 S I Johnston (resigned 28 April 2008)

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, and R P Francis, who has been appointed since the previous Annual General Meeting, offers himself for election.

Directors' interests

The directors who held office at 30 September 2008 had the following interests in the shares of the Company:

	Ordinary shares of 1 pence each		
	Shareholding %	30 September 2008	1 October 2007
Lord Daresbury	19.89%	3,201,062	2,114,524
C M A Black	41.20%	6,632,500	6,632,500
K L Bird	7.97%	1,283,545	1,206,622
D P Greef	5.64%	907,881	807,381
R P Francis	2.84%	457,360	424,027

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 December 2005
	22	200,000	27 April 2007
	39	50,000	6 May 2008
	30	150,000	12 September 2008
Lord Daresbury	22	100,000	27 April 2007
	39	35,000	6 May 2008
	30	300,000	12 September 2008
K L Bird	39	25,000	6 May 2008
D P Greef	22	100,000	27 April 2007
	39	20,000	6 May 2008
	30	15,000	12 September 2008
R P Francis	39	20,000	6 May 2008
	30	15,000	12 September 2008

Directors' report (continued)

The following options were exercised by directors during the year:

	Exercise price	Number	Date of exercise
	(p)	exercised	
Lord Daresbury	12	105,000	15 August 2008
D P Greef	12	95,000	15 August 2008

Further details on share options are given in note 21 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 5 January 2009:

	Ordinary shares of 1 pence each	
	Shareholding %	5 January 2009
HSBC Global Custody Nominee (UK) Limited	6.43	1,035,512

Post-balance sheet events

There were no significant post-balance sheet events.

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 116 days (2007 – 103 days) purchases outstanding.

Political and charitable donations

The Group made no political or charitable donations in the year (2007: 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.

Directors' report (continued)

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.

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 non-executive 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 period 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 period comprised Lord Daresbury and Damion Greef 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.

During the year under review, there were no changes to the pay of the executive Directors. Share options were granted to directors as set out above.

Directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with the Companies Act 1985. The directors are also required to prepare financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

In relation to the Group financial statements, the directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and its financial performance and cash flows for that period. In relation to the Company's financial statements, the directors are required by law to prepare financial statements for each financial year that give a true and fair view of the state of the affairs of the Company for that period. In preparing the Group and Company financial statements, the directors are required to:

Directors' report (continued)

- select suitable accounting policies and apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in applicable accounting standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.
- state that the Group has complied with the applicable accounting standards subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Annual General Meeting

Notice of the Annual General Meeting of the Company for 2008 is attached with these financial statements.

Approved by the Board and signed on its behalf by:

M A Eve
Director
8 January 2009

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

Independent auditors' report to the shareholders of Nasstar plc

We have audited the Group and parent Company financial statements (the 'financial statements') of Nasstar plc for the year ended 30 September 2008 which comprise the Group Income Statement, the Group and parent Company Balance Sheets, the Group and parent Company Cash Flow Statements, the Group and parent Company Statements of Changes in 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985 are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' Report (including the specific information presented in the Chairman's Statement and Operating and Financial Review that is cross-referenced from the review of the business section of the Directors' Report) is consistent with the financial statements. We also 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 the information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

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

Basis of audit opinion

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

Nasstar plc
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Independent auditors' report to the shareholders of Nasstar plc (continued)

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 financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union applied in accordance with the provisions of the Companies Act 1985, of the state of the Group's and parent Company's affairs as at 30 September 2008 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Gerald Edelman

Chartered Accountants & Registered Auditors

London

8 January 2009

Nasstar plc
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Consolidated income statement

	Note	2008 £000	2007 £000
Revenue	5	2,101	1,193
Cost of sales		(495)	(301)
Gross profit		<u>1,606</u>	<u>892</u>
Operating and administrative expenses		(1,659)	(1,187)
Share-based payments	21	(28)	(69)
Total operating and administrative expenses		<u>(1,687)</u>	<u>(1,256)</u>
EBITDA	3	<u>241</u>	<u>(101)</u>
Other operating income		113	-
Operating profit/(loss)	7	<u>32</u>	<u>(364)</u>
Finance expense	11	(161)	(128)
Loss before taxation		(129)	(492)
Taxation	12	(3)	6
Loss for the year attributable to shareholders		<u>(132)</u>	<u>(486)</u>
Loss per share:			
Basic and diluted	13	<u>(0.9p)</u>	<u>(3.5p)</u>

All amounts relate to continuing operations.

The notes on pages 20 to 44 form part of these financial statements.

Nasstar plc
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Balance sheets

	Note	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Assets					
Non-current assets					
Goodwill	14	844	844	-	-
Intangible assets	15	153	18	-	-
Property, plant and equipment	16	421	275	-	-
Investments	17	-	-	1,158	1,158
Deferred taxation	23	175	175	-	-
		1,593	1,312	1,158	1,158
Current assets					
Trade and other receivables	18	533	314	428	157
Cash and cash equivalents	19	65	58	1	-
		598	372	429	157
Total assets		2,191	1,684	1,587	1,315
Equity and liabilities					
Capital and reserves attributable to equity holders of the parent					
Share capital	20	161	145	161	145
Share premium		1,472	1,031	1,472	1,031
Merger reserve		662	662	-	-
Retained deficit		(1,309)	(1,205)	(110)	(10)
Total equity		986	633	1,523	1,166
Non-current liabilities					
Interest-bearing loans and borrowings	22	110	84	-	--
Current liabilities					
Interest-bearing loans and borrowings	22	195	155	-	--
Trade and other payables	24	900	812	64	149
		1,095	967	64	149
Total equity and liabilities		2,191	1,684	1,587	1,315

The financial statements were approved and authorised for issue by the Board of Directors on 8 January 2009 and signed on its behalf by:

C M A Black, Director

M A Eve, Director

The notes on pages 20 to 44 form part of these financial statements.

Nasstar plc
Report and financial statements for the year ended September 2008

Consolidated statement of changes in equity

	Attributable to equity holders of the Company				
	Share Capital	Share Premium	Merger Reserve	Retained deficit	Total equity
	£000	£000	£000	£000	£000
At 1 October 2006	109	67	662	(788)	50
Loss for the year recognised in profit and loss	-	-	-	(486)	(486)
Shares issued in year	36	964	-	-	1,000
Share-based payment recognised in equity (note 21)	-	-	-	69	69
At 30 September 2007	145	1,031	662	(1,205)	633
At 1 October 2007	145	1,031	662	(1,205)	633
Loss for the year recognised in profit and loss	-	-	-	(132)	(132)
Shares issued in year	16	441	-	-	457
Share-based payment recognised in equity (note 21)	-	-	-	28	28
At 30 September 2008	161	1,472	662	(1,309)	986

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 attributable to equity shareholders.

The notes on pages 20 to 44 form part of these financial statements.

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Consolidated cash flow statement

	Note	2008 £000	2007 £000
Cash flow from operating activities			
Operating profit/(loss) before taxation		32	(364)
Adjustments for:			
Depreciation and amortisation		322	263
Share-based payments		28	69
Profit on sale of plant and equipment		(113)	-
Corporation tax paid		(3)	(26)
Net cash flow from operating activities before changes in working capital		266	(58)
Increase in trade and other receivables		(219)	(75)
Increase in trade and other payables		88	209
Net cash flow generated from operating activities		135	76
Investing activities			
Payments for intangible assets		(206)	(52)
Payments for property, plant and equipment		(399)	(226)
Proceeds from the sale of property, plant and equipment		115	13
Acquisition of subsidiary undertaking		-	(778)
Net cash flow from investing activities		(490)	(1,043)
Financing activities			
Issue of ordinary shares		457	1,000
Proceeds from lease-finance arrangements		235	161
Repayment of lease-finance arrangements		(119)	(106)
Interest paid		(161)	(128)
Net cash flow from financing activities		412	927
Net increase/(decrease) in cash and cash equivalents in the year		57	(40)
Cash and cash equivalents at the beginning of the year		8	48
Cash and cash equivalents at the end of the year	19/22	65	8

The notes on pages 20 to 44 form part of these financial statements.

Company statement of changes in equity

	Attributable to equity holders of the Company			
	Share Capital	Share Premium	Retained Deficit	Total equity
	£000	£000	£000	£000
At 1 October 2006	109	67	(10)	166
Loss for the year recognised in profit and loss	-	-	(69)	(69)
Shares issued in year	36	964	-	1,000
Share-based payment adjustment recognised in equity (note 21)	-	-	69	69
At 30 September 2007	145	1,031	(10)	1,166
At 1 October 2007	145	1,031	(10)	1,166
Loss for the year recognised in profit and loss	-	-	(128)	(128)
Shares issued in year	16	441	-	457
Share-based payment adjustment recognised in equity (note 21)	-	-	28	28
At 30 September 2008	161	1,472	(110)	1,523

The notes on pages 20 to 44 form part of these financial statements.

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Company cash flow statement

	Note	2008 £000	2007 £000
Cash flow from operating activities			
Operating loss before taxation		(128)	(69)
Adjustments for:			
Share-based payments		28	69
Net cash flow from operating activities before changes in working capital			
(Increase) in trade and other receivables		(271)	(147)
(Decrease)/increase in trade and other payables		(85)	149
Net cash flow used in operating activities			
Investing activities			
Investment in Group companies		-	(1,002)
Net cash flow from investing activities			
Financing activities			
Issue of ordinary shares		457	1,000
Net cash flow from financing activities			
Net increase in cash and cash equivalents in the year			
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of the year	19	1	-

The notes on pages 20 to 44 form part of these financial statements.

1 Basis of preparation and significant accounting policies

These consolidated financial statements of Nasstar plc have been prepared in accordance with accepted International Financial Reporting Standards (IFRSs), International Accounting Standards (IAS) 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 1985 applicable to companies reporting under IFRS. These consolidated financial statements are the first Nasstar plc financial statements to be prepared in accordance with IFRS, the transition date being 1 October 2006. Details of the transition from UK GAAP to IFRS are given in note 30.

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 £132,000 and net current liabilities of £497,000. 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 current financial period. 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.

First-time adoption

In preparing these financial statements, the Group has elected to apply the following transitional arrangements permitted by IFRS1 'First-time Adoption of International Financial Reporting Standards

- Business combinations effected before 1 October 2006, including those that were accounted for using the merger method of accounting under UK accounting standards, have not been restated.
- IFRS2 'Share-based payments' has been applied to employee options granted after 7 November 2002 that had not vested by 1 January 2006.

The Group has made estimates under IFRSs at the date of transition, which are consistent with those estimates made for the same date under UK GAAP unless there is objective evidence that those estimates were in error, i.e the Group has not reflected any new information in its opening IFRS balance sheet but reflected that new information in its income statement for subsequent periods.

Judgments made by the directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are disclosed in note 4 below.

Companies Act s230 exception

The Company has taken advantage of the exemptions allowed under section 230 of the Companies Act 1985 and has not presented its own income statement in these financial statements. The Group profit for the year included a loss on ordinary activities after tax of £128,000 (2007: £69,000) in respect of the Company which is dealt with in the financial statements of the parent Company.

Standards, amendments and interpretations to published standards not yet effective.

At the date of authorisation of these consolidated financial statements, the IASB and IFRIC have issued the following standards and interpretations which are effective for annual accounting periods beginning on or after the stated effective date. These standards and interpretations are not effective for and have not been applied in the preparation of these consolidated financial statements:

- IAS 1: Presentation of Financial Statements (Revised 2007) (effective as of 1 January 2009)
- IAS 23: Borrowing Costs (Revised 2007) (effective as of 1 January 2009)
- IAS 27: Consolidated and Separate Financial Statements (Amended) (effective as of 1 July 2009)
- IFRS 2: Share Based Payments: Vesting conditions and Cancellations (Amended) (effective as of 1 January 2009)
- IFRS 3: Business Combinations (Revised) (effective as of 1 July 2009) includes an amendment to the treatment of minority interests (renamed non-controlling interests), amendments to the calculation of goodwill, a change to the method of accounting for acquisitions in stages, amendment to the accounting for contingent consideration and changes to the recognition and measurement of certain assets and liabilities
- IFRS 8: Operating Segments (effective as of 1 January 2009)
- IFRIC Interpretation 12: Service Concession Arrangements (effective as of 1 January 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 13: Customer Loyalty Programmes (effective as of 1 July 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 1 July 2008 – not yet endorsed by the EU)
- IFRIC Interpretation 15: Agreements for the Construction of Real Estate (effective as of 1 January 2009 – not yet endorsed by the EU)
- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective as of 1 October 2008 – not yet endorsed by the EU)
- Amendments to IAS32 Financial Instruments: Presentation and IAS1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (effective for beginning on or after 1 January 2009). This amendment is still to be endorsed by the EU
- Amendments to IFRS1 and IAS27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective for accounting periods beginning on or after 1 January 2009). These amendments are still to be endorsed by the EU
- Eligible Hedged Items (Amendment to IAS 39 Financial Instruments: Recognition and Measurement). Entities shall apply the amendment retrospectively for annual periods beginning on or after 1 July 2009. This amendment is still to be endorsed by the EU.

The Directors anticipate that the adoption of these standards and interpretations will not have a material impact on the Group's financial statements in the period of initial adoption with the exception of IFRS 3: Business Combinations (Revised), which will require transaction costs arising on business combinations to be expensed to the income statement as opposed to the existing treatment of capitalisation, in the event that acquisitions are undertaken.

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 merger method of accounting or the purchase method of accounting as appropriate.

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.

Merger accounting

In accordance with the exemption in IFRS 1 where merger accounting has been used in years prior to the transition date the accounting method used for the relevant purchase transactions has not been restated.

Business combinations

The consolidated financial statements incorporate the results of business combinations using the purchase method. The acquiree’s identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Where the fair value of consideration paid exceeds the fair value of the identifiable assets, liabilities and contingent liabilities acquired the resulting difference is classified as goodwill and presented as a non-current intangible asset. Where the fair value of consideration paid is lower than the fair value of identifiable assets, liabilities and contingent liabilities acquired the difference is taken to the income statement. Goodwill arising from business combinations is assessed for impairment annually.

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

Investments in subsidiaries

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for impairment in value. The cost of acquisition includes directly attributable professional fees and other expenses incurred in connection with the acquisition.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset at cost and is subsequently measured at cost less accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

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.

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 on a straight-line basis at rates calculated to write off the cost less the estimated residual value of each asset over its expected useful economic life. The residual value is the estimated amount that would currently be obtained from disposal of the asset if the asset were already of the age and in the condition expected at the end of its useful life.

Plant and equipment are depreciated using the straight-line method based on estimated useful lives.

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

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.

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 bank overdrafts.

Financial liabilities

The Group classifies its financial liabilities as:

Interest-bearing loans and borrowings: 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. These arise principally from the receipt of goods and services.

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. Revenue arising from the provision of services 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 21.

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.

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 13).

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 income statement.

All other leases are treated as operating leases. Their annual rentals are charged to the income statement 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.

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 pound sterling which is the presentation currency for the consolidated and Company financial statements. The functional currency of the Company is pound 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 is included in the income statement 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 income statement 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 balance sheet date.

Tax recoverable comprises amounts receivable in respect of consortium tax relief arising from the surrender of taxable losses to the Group's associate.

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 balance sheet 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 income statement, 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.

2 Operating profit and loss

Operating profit and loss comprises revenues less cost of sales and operating and administrative expenses, including exceptional expenditures where relevant from continuing operations.

3 EBITDA

EBITDA (earnings before interest, tax, depreciation and amortisation) is defined as operating profit or loss excluding charges for depreciation and amortisation.

4 Critical accounting estimates and judgements

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 21.

(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.

5 Revenue

The Group has only one source of revenue being the provision of software as a service. All revenue arises in the United Kingdom.

An analysis of the Group's revenue by destination market is as follows:

	2008	2007
	£000	£000
United Kingdom	2,034	1,132
Rest of the World	67	61
Total revenue	2,101	1,193

6 Segmental analysis

A segment is a distinguishable component of the Group that is engaged in providing products or services in a particular business sector (business segment) or in providing products or services in a particular economic environment (geographic segment), which is subject to risks and rewards that are different in those other segments.

The Group operated in the year in one segment, the provision of software as a service. The disclosures required by IAS 14 relating to profits, losses, assets and liabilities of the segment are therefore shown by the financial statements as a whole.

7 Operating profit/(loss) (Group)

	2008	2007
	£000	£000
Operating profit/(loss) for the year is stated after charging:		
Amortisation of intangible assets	71	34
Depreciation of plant and equipment	251	229
Staff costs (note 8)	963	700
Auditors' remuneration (note 10)	20	24
Operating lease rentals	32	33

8 Staff numbers and costs:

The average number of persons, including executive directors, was:

	2008	2007
	Number	Number
Technical	8	5
Sales	5	4
Administration	2	1
	15	10

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

	2008	2007
	£000	£000
Wages and salaries	847	569
Social security costs	88	58
Other staff benefits	-	4
Share-based payments	28	69
	963	700

9 Directors' emoluments

Directors' emoluments for the period that each individual served as a director were as follows:

	2008	2007
	£000	£000
Salaries and fees	300	257
Pension costs	5	4
Share-based payments	25	67
	330	328

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest-paid director was £115,000 (2007: £126,000). There are no key management personnel other than the directors. Directors' emoluments analysed by director are shown in note 29.

10 Auditors' remuneration (Group and Company)

	2008	2007
	£000	£000
Fees payable for the audit of the Group's financial statements	18	15
Fees payable for tax compliance	2	9
	20	24

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11 Finance expenses	2008 Group £000	2007 Group £000	2008 Company £000	2007 Company £000
Bank interest payable	13	7	1	2
Finance lease interest payable	71	52	-	-
Other finance costs	77	69	-	-
	<u>161</u>	<u>128</u>	<u>1</u>	<u>2</u>

Other finance costs represent amortised borrowing costs arising on deferred income.

12 Taxation	2008 £000	2007 £000
UK Corporation tax		
Current tax on income for the year at 30%	-	1
Adjustment in respect of prior periods	3	(7)
Current tax charge for the year	<u>3</u>	<u>(6)</u>
Deferred taxation		
Deferred taxation current year (see note 23)	-	-
Tax on loss on continuing operations	<u>3</u>	<u>(6)</u>

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:

	2008 £000	2007 £000
Loss before tax	<u>(129)</u>	<u>(492)</u>
Loss on continuing operations multiplied by the standard rate of corporation tax in the UK of 19% (2007: – 19%)	(25)	(93)
Expenses not deductible for tax purposes	3	31
Other timing differences	32	14
Loss brought forward/carried forward	(10)	49
Prior period adjustment	3	(7)
Tax on loss on continuing operations	<u>3</u>	<u>(6)</u>

Factors that may affect the future tax charge

Unrelieved tax losses of approximately £1,367,000 (2007: £1,253,000) are available to offset against future taxable profits of the group.

13 Loss per share

The calculation of the basic loss per share arising is based upon the loss after tax attributable to ordinary shareholders of £132,000 (2007: loss of £486,000) and a weighted average number of shares in issue for the year of 14,786,768 (2007: 13,876,190).

The diluted loss per share in 2008 and 2007 is the same as the basic loss per share as the losses have an anti-dilutive effect.

14 Goodwill

	Group £000
At 1 October 2006	-
Arising on the acquisition of Network Support International Limited	844
	<hr/>
At 30 September 2007 and 30 September 2008	844
	<hr/>

15 Intangible assets Group

	Website £000	Computer Software £000	Total £000
Cost			
At 1 October 2006	-	-	-
Additions	-	52	52
	<hr/>		
At 30 September 2007	-	52	52
Additions	58	148	206
	<hr/>		
At 30 September 2008	58	200	258
	<hr/>		
Amortisation			
At 1 October 2006	-	-	-
Amortisation	-	(34)	(34)
	<hr/>		
At 30 September 2007	-	(34)	(34)
Amortisation	(22)	(49)	(71)
	<hr/>		
At 30 September 2008	(22)	(83)	(105)
	<hr/>		
Net book value			
At 30 September 2008	36	117	153
	<hr/>		
At 30 September 2007	-	18	18
	<hr/>		
At 1 October 2006	-	-	-
	<hr/>		

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16 Property, plant and equipment (Group)

	Computer equipment £000	Office equipment and fixtures £000	Total £000
Cost			
At 1 October 2006	503	24	527
Additions	202	24	226
Acquisition of subsidiary undertaking	34	14	48
	-	(13)	(13)
At 30 September 2007	739	49	788
Additions	381	18	399
Disposals	(178)	-	(178)
At 30 September 2008	942	67	1,009
Depreciation			
At 1 October 2006	(272)	(12)	(284)
Charge for the year	(223)	(6)	(229)
At 30 September 2007	(495)	(18)	(513)
Charge for the year	(235)	(16)	(251)
Disposals	176	-	176
At 30 September 2008	(554)	(34)	(588)
Net book value			
At 30 September 2008	388	33	421
At 30 September 2007	244	31	275
At 1 October 2006	230	12	242

Included within property, plant and equipment are the following amounts at 30 September 2008 held under finance leases:

	Cost £000	Depreciation £000	Net book value £000
At 30 September 2008	461	289	172

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17 Investments	Shares in subsidiaries £000
Cost	
At 1 October 2006	156
Additions	1,002
At 30 September 2007 and 30 September 2008	<u>1,158</u>

Details of the investments are as follows:

	Country of incorporation and operation	Activity	Percentage of ordinary shares held
Nasstar (UK) Limited	Great Britain	Application Service Provider	100
Network Support International Limited	Great Britain	Application Service Provider	100

18 Trade and other receivables	2008 Group £000	2007 Group £000	2008 Company £000	2007 Company £000
Trade debtors	294	242	-	-
Less provision for impairment	(15)	(3)	-	-
Trade debtors – net	279	239	-	-
Amounts owed by Group companies	-	-	406	154
Prepayments	150	68	17	3
Other debtors	104	7	5	-
	<u>533</u>	<u>314</u>	<u>428</u>	<u>157</u>
Included above are amounts due in more than one year of:	78	-	-	-

19 Cash and cash equivalents	2008 Group £000	2007 Group £000	2008 Company £000	2007 Company £000
Cash at bank	65	58	1	-

Cash and cash equivalents comprise cash.

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20 Share capital	2008	2007
	Group and	Group and
	Company	Company
	£000	£000
Authorised:		
1,000,000,000 ordinary shares of 1pence each	10,000	10,000
Called up, allotted and fully paid:		
16,096,556 (2007: 14,471,428) ordinary shares of 1 pence each	161	145

There have been the following changes in the issued share capital during the year:

On 6 May 2008 the Company issued 205,128 ordinary shares of 1 pence each at a price of 39 pence.

On 28 July 2008 the Company issued 1,150,000 ordinary shares of 1 pence each at a price of 30 pence.

On 15 August 2008 the Company issued 270,000 ordinary shares of 1 pence each at a price of 12 pence. These shares were issued in respect of share options exercised (note 21).

21 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 a 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.

EMI Options and Unapproved Options (together the "Options") have been granted over 2,189,500 ordinary shares in aggregate to directors and staff under the schemes and representing approximately 13.6% of the issued share capital as at 30 September 2008, as set out below.

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Details of the total share options outstanding during the year are as follows:

	30 September 2008		30 September 2007	
	No of share options	Weighted average exercise price Pence	No of share options	Weighted average exercise price Pence
Outstanding at beginning of year	1,646,000	15.6	1,196,000	13.2
Granted during the year	830,000	33.8	450,000	22.0
Cancelled during the year	(16,500)	24.0	-	-
Exercised in the year	(270,000)	12.0	-	-
Outstanding at the end of the year	2,189,500	22.9	1,646,000	15.6
Exercisable at the end of the year	909,500	13.4	-	-

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

	2008	2007
Weighted average share price in pence	33.8	22
Weighted average exercise price in pence	33.8	22
Expected volatility	26%	20%
Expected life in years	3.5	3.5
Risk free rate	4.4%	4.4%
Expected dividends	None	None
	Group and Company £000 2008	Group and Company £000 2007
The charge to profit and loss for the year	28	69

Expected volatility was determined by calculating the volatility in the share price over the 12 months to 30 September 2008 and for options granted in the year to 30 September 2008.

22 Interest-bearing loans and borrowings

	Non-current Group £000 2008	Non-current Group £000 2007	Current Group £000 2008	Current Group £000 2007
Bank borrowings	-	-	-	50
Lease finance obligations	110	84	195	105
	110	84	195	155

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 balance sheet date and the periods in which they mature or, if earlier, are repriced. Amounts shown are capital and interest repayments. The repricing analysis in respect of funds held by the Company is not significant.

	Effective interest rate	Group Total £000 2008	Group Current £000 2008	Group 1 - 2 Years £000 2008	Group 2 - 5 years £000 2008
Cash at bank and other deposits	3.0%	65	65	-	-
Lease finance facilities	19.2%	358	235	98	25

23 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Group 2008 £000	Group 2007 £000	Company 2008 £000	Company 2007 £000
Accelerated capital allowances	(4)	(4)	-	-
Tax losses	169	169	-	-
Other timing differences	10	10	-	-
Deferred tax asset	175	175	-	-
Analysed as:				
At beginning and end of year	175	175	-	-
Disclosed as:				
Non-current assets	175	175	-	-

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

	Group 2008 £000	Group 2007 £000	Company 2007 £000	Company 2007 £000
Tax losses	91	69	28	9
Other timing differences	19	13	-	-
Accelerated capital allowances	(7)	(7)	-	-
	103	75	28	9

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24 Trade and other payables	2008 Group £000	2007 Group £000	2008 Company £000	2007 Company £000
Trade payables	335	134	60	8
Other tax and social security	132	115	-	-
Other creditors	100	149	-	140
Accruals and deferred income	333	414	4	1
	<hr/>	<hr/>	<hr/>	<hr/>
	900	812	64	149
	<hr/>	<hr/>	<hr/>	<hr/>

There is no material difference between the fair-values and book value of Trade and other payables.

25 Financial instruments

In common with other businesses, the Group and Company (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 in 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	2008 £000	2007 £000
Trade receivables	279	239
Other receivables	254	75
Cash and cash equivalents	65	58
Trade and other payables	(435)	(333)
Interest-bearing loans and borrowings	(305)	(189)
	<hr/>	<hr/>
Company	2008 £000	2007 £000
Other receivables	428	157
Cash and cash equivalents	1	-
Trade and other payables	(60)	(148)
	<hr/>	<hr/>

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, it has delegated the 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:

Credit risk

Credit risk arises principally from the Group's trade and other receivables and cash and cash equivalents. It is the 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 the 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 22.

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

Interest rate risk

The Group and the Company are exposed to interest rate risk in respect of interest-bearing borrowings, comprising an overdraft facility of £50,000, which was not utilised at the year end, which is a variable rate instrument. The Group is also 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 profit before tax (through the impact on floating rate borrowings) and cash flows. There is no impact on the Group's equity.

	Change in rate	2008 £	Change in rate	2007 £
Sterling	- 0.5%	1,525	- 0.5%	945
	- 1.0%	3,050	- 1.0%	1,890
	- 1.5%	4,575	- 1.5%	2,835
Sterling	+ 0.5%	(1,525)	+ 0.5%	(945)
	+ 1.0%	(3,050)	+ 1.0%	(1,890)
	+ 1.5%	(4,575)	+ 1.5%	(2,835)

Fair value of financial liabilities

	2008 £000	2007 £000
Obligations under lease-finance arrangements	305	189
Trade and other payables	335	134
	<hr/> 640	<hr/> 323

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 statement 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.

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26 Operating lease commitments	2008	2007	2008	2007
	Group £000	Group £000	Company £000	Company £000
Expiry date:				
Within one year	-	-	-	-
Between one and two years	32	-	-	-
Between two and five years	-	22	-	-
	32	22	-	-

Operating lease obligations comprise property rentals and hire of equipment.

27 Post-balance sheet events

There are no significant post-balance sheet events arising since 30 September 2008 other than those already disclosed within these financial statements.

28 Capital commitments

At 30 September 2008 the Group had a capital commitment of £161,000 in respect of the purchase of computer equipment.

29 Related-party transactions

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

	Salary and fees 2008 £000	Pension costs 2008 £000	Share-based payments 2008 £000	Total 2008 £000
Lord Daresbury	15	-	6	21
C M A Black	100	-	15	115
K L Bird	80	5	-	85
D P Greef	12	-	2	14
M A Eve (appointed 6 December 2007)	53	-	-	53
R P Francis (appointed 28 April 2008)	5	-	-	5
A R Malkin (resigned 6 December 2007)	3	-	-	3
S I Johnston (resigned 28 April 2008)	32	-	2	34
	300	5	25	330

M A Eve's remuneration is paid to DFM Limited (trading as FD Solutions), of which he is an employee. At 30 September 2008 £11,553 (inclusive of VAT) was outstanding to FD Solutions.

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R P Francis's remuneration is paid to RTH Associates Limited, of which he is a director. At 30 September 2008 £3,525 (inclusive of VAT) was outstanding to RTH Associates Limited.

	Salary and fees 2007 £000	Other benefits 2007 £000	Share-based payments 2007 £000	Total 2007 £000
Lord Daresbury	35	-	9	44
C M A Black	85	-	41	126
K L Bird	61	4	-	65
D P Greef	12	-	3	15
A R Malkin	12	-	8	20
S I Johnston	52	-	6	58
	257	4	67	328

On 26 September 2008 Nasstar (UK) Limited entered into a transaction with SEN Capital Limited, a company in which C M A Black has a material interest. The contract entailed the supply by SEN Capital Limited, after the year end, of computer equipment for £161,000 on arms-length business terms under lease finance. The asset and related liability will be accounted for in the next accounting period.

At 30 September 2008, Nasstar (UK) Limited had an outstanding loan of £50,000 from Lord Daresbury (2007 – nil). This loan is interest-free and repayable on demand and was made in order to assist with short-term working capital. £5,000 of this loan was repaid in October 2008.

30 Transition to International Financial Reporting Standards

The Group and Company reported under UK GAAP in its previous published financial statements for the year ended 30 September 2007. The analysis below shows a reconciliation of net assets as reported under UK GAAP as at 1 October 2006, and 30 September 2007 for the Group to the revised net loss and assets under International Financial Reporting Standards (IFRS) as reported in these financial statements. There were no material changes to the equity or profit and loss of the Company.

As stated in the Basis of Preparation, these are the Group's first consolidated financial statements covered by IFRS.

Significant changes to the cash flow statement

None of the adjustments arising from the transition to IFRS relate to cash and therefore there is no impact on the reported cash flows.

Reconciliation of equity at 1 October 2006

	UK GAAP	Adjustment (a)	IFRS
	£000	£000	£000
Non-current assets			
Goodwill	-	-	-
Intangible assets	-	-	-
Property, plant and equipment	140	102	242
Current assets			
Trade and other receivables	321		321
Cash and cash equivalents	48	-	48
Current liabilities			
Obligations under finance leases	(9)	(54)	(63)
Trade and other payables	(444)	-	(444)
Non-current liabilities			
Obligations under finance leases	(20)	(34)	(54)
Net assets	36	14	50
Equity			
Share capital	109	-	109
Share premium account	67	-	67
Merger reserve	662	-	662
Profit and loss account	(802)	14	(788)
Total equity	36	14	50

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Reconciliation of equity at 30 September 2007

	UK GAAP	Adjustment (a)	IFRS
	£000	£000	£000
Non-current assets			
Goodwill	844	-	-
Intangible assets	-	-	-
Property, plant and equipment	119	173	292
Current assets			
Trade and other receivables	489		489
Cash and cash equivalents	58	-	58
Current liabilities			
Obligations under finance leases	(20)	(85)	(105)
Trade and other payables	(861)	-	(861)
Non-current liabilities			
Obligations under finance leases	-	(84)	(84)
Net assets	629	4	633
Equity			
Share capital	145	-	145
Share premium account	1,031	-	1,031
Merger reserve	662	-	662
Profit and loss account	(1,209)	4	(1,205)
Total equity	629	4	633

Reconciliation of loss under UK GAAP and IFRS

	UK GAAP	Adjustment (a)	Adjustment (b)	IFRS
	£000	£000	£000	£000
Revenue	1,193	-	-	1,193
Cost of sales	-	-	(301)	(301)
Gross profit	1,193	-	(301)	892
Other income	-	-	-	-
Operational and administrative costs	(1,587)	29	301	(1,257)
Operating loss	(394)	-	-	(365)
Finance costs	(88)	(39)	-	(128)
Loss after tax	(482)	-	-	(493)
Taxation	6	-	-	6
Loss for the year	(476)	(10)	-	(486)

Notes to the reconciliations:

(a) From 1 October 2006, the date of transition to IFRS, the Group's accounting treatment of leases is required to comply with International Accounting Standard 17 (IAS 17). UK GAAP, under SSAP 21, provided greater flexibility over the accounting treatment. Under IAS 17, whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. The equipment leases entered into by the Group provide for the payment to the lessor of a nominal sum at the end of the primary lease term in exchange for title to the equipment that has been subject to the lease and the Group does, in practice, make such payments. Under UK GAAP, the Group designated such leases as operating leases. Under IFRS, the Group now designates such leases as finance leases with the resultant change in accounting treatment from the UK GAAP presentation.

(b) Reclassification of certain operational costs to cost of sales. These are presentational adjustments only, and have no effect on equity.