



Nasstar plc

Report and financial statements for the year ended 30 September 2009

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Nasstar plc
Report and financial statements for the year ended 30 September 2009

Directors, secretary and advisers

Directors

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

Non-executive Chairman
Chief Executive
Operations Director
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
Claridge House
32 Davies Street
London
W1K 4ND

Registrars

Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen
West Midlands
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 £2m (2008: £2.1m)
- EBITDA loss of £352,000 (2008: £241,000 profit) and a loss after tax of £939,000 (2008: loss £132,000)
- 126% increase in Hosted Desktop subscribers in the year from 508 to 1,149
- 18% increase in Hosted Exchange subscribers in the year from 7,726 to 9,151
- 16 Partners signed up as at 30 September 2009 (2008: 2)
- £1.1m new equity raised during the year

Chairman's Statement

The cloud computing market seems to be gathering real momentum and the Board believes that the Company is now well positioned to play a significant part in driving the growth in the market with a growing number of partners now introducing the Company's cloud services to their own customers.

Current trading is positive and the sales pipeline from both the partner programme and direct sales gives us confidence for the Company's prospects during the current financial year. 2009 was clearly a challenging year for management due to both the aborted transaction and the business downturn of the wider economy.

Moving on, we have strong foundations on which to capitalise on the opportunities that will present themselves as the acceptance of cloud computing becomes more widespread. The Directors view the future with optimism.

Lord Daresbury
Chairman
21 January 2010

Operating and financial review

Reported turnover was slightly below last year but showed 20% invoiced sales growth after taking into account a reduction in accrued income for long-term contracts. In 2008 approximately £500,000 of turnover was accrued at the start of certain long-term contracts in applying the accounting policy that revenue is recognised in accordance with the value of work performed. In respect of a number of contracts signed during the 2008 year, there was substantial front-loaded work carried out as the infrastructure and staff time necessary to set up these services were incurred. In the 2009 year, as a result of improved infrastructure, provisioning processes and partner sales, there was only a small requirement to accrue revenue in this way with approximately £100,000 being accounted for during the early part of the year. After adjusting for these changes invoiced turnover increased by £400,000 during the year.

Subscribers

The number of subscribers for both Nasstar Hosted Desktop and Hosted Exchange grew during the year and has continued to grow in the current period:

- Hosted Desktop subscribers as at 30 September 2009: 1,149 (2008: 508)
- Hosted Desktop subscribers as at 30 November 2009: 1,281 (2008: 546)
- Hosted Exchange subscribers as at 30 September 2009: 9,151 (2008: 7,726)
- Hosted Exchange subscribers as at 30 November 2009: 9,402 (2008: 8,359)

Partner Programme

After a long period of planning and development, we initiated the partner programme during the year. 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 Hosted Desktop under their own brand. We have developed a 'white label' version so that partners can market and deliver the service under their own brand and domain name. We have produced sales and technical training documentation and courses and have begun to see real traction with a number of partners now delivering sales. We are confident the number of partners and the sales they generate will continue to grow in the current year. We are in the process of launching a new site for partners at www.hosteddesktop.co.uk.

Operations

Overall we have reduced a number of overheads in the business that have not affected our ability to grow our customer base and deliver high levels of customer service. Examples include our own office connectivity costs and the costs of professional advisers that are required for an AIM-traded company. Two directors left the business in July and there are no plans at present to replace them. We have maintained fairly constant levels of both sales and technical employees.

(b) Market review

The cloud computing market

The cloud computing market covers a broad spectrum of services and represents a dramatic change in the landscape of information technology. Cloud computing is part of a larger trend of more and more services being delivered online and converging in the cloud, such as music, TV, radio and telephone. To understand where Nasstar Hosted Desktop fits in this arena it is necessary to set out a brief overview of this new 'cloudscape'.

Operating and financial review (continued)

Infrastructure as a Service (IaaS)

Under the umbrella of cloud computing we see data centre companies who have traditionally operated on the basis of just space rental now seeking to provide "Infrastructure as a Service" (IaaS) whereby you can rent not just floor space but processing power and storage. Also in this space are large corporations such as Amazon Web Services and Microsoft. Amazon Web Services are in the market to supply processing power and storage which a customer can rent on-demand. Microsoft's Azure platform aims to compete with Amazon, offering customers the ability to buy on-demand Microsoft operating systems, processing power and storage from a Microsoft data centre. Certain hardware manufacturers are also in the cloud computing space by offering services bundled up with their hardware. It seems clear that the traditional boundaries of hardware manufacture, software vendor and data centre operator are being eroded at a fast pace with everything converging as a service 'in the cloud'. The expression "Platform as a Service" (PaaS) is used to describe a cloud service that offers the customer the ability to host applications on a platform that you buy on-demand. In this respect it is covered by the broad description afforded to IaaS.

Software as a Service (SaaS)

This is where Nasstar Hosted Desktop sits. The two key defining characteristics of SaaS are (1) the software is delivered online, hosted by a SaaS provider, rather than being installed on a local machine or server, and (2) payment is on a usage basis rather than buying a perpetual software licence. SaaS provides an alternative to traditional software delivery which was in a box with the customer investing capital in a perpetual right to use that version of the software (usually with annual fees for support and maintenance of the software). With SaaS you are paying for what you use on a monthly basis and the fees cover support and maintenance of the application. In the SaaS market we see traditional box software vendors such as Sage and Microsoft now offering their applications on a SaaS basis. There are also SaaS providers that have been set up on day one as SaaS only, such as Salesforce.com. Google offers SaaS providing hosted applications such as Google Apps and Google Mail.

Nasstar Hosted Desktop is a SaaS provider (though some industry commentators also refer to what we do as Desktop as a Service (DaaS)), delivering a hosted Windows desktop online together with Microsoft Office Professional, Outlook Exchange email and other applications that the customer uses; all delivered online and accessed through a web browser or on a Windows mobile device or iPhone.

In terms of "hosted desktop" the market is predicted to grow at a fast rate. Gartner released a research note in March 2009 which predicted a growth in "hosted virtual desktops" from 500,000 units currently to 49 million units worldwide by 2013, creating a global market worth US\$65 billion per annum by 2013.

Putting market research and predictions to one side, in my opinion the market is growing quickly now. My opinion is based on a number of factors including the emergence of competition, which we welcome, the number of enquiries we receive directly and the interest that a growing number of partners have in delivering Hosted Desktop to their customers. These factors provide the clearest indication that the market is now moving on from its early-adoption phase. We are finding that partners are approaching us with real opportunities where they have customers asking for a Hosted Desktop service.

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. A number of new features have been added to Nasstar Hosted Desktop in 2009 including the ability to access it on the Apple iPhone and a multi-language version. In addition there has been planning and development of future service enhancements that the Company intends to release in 2010. These developments are commercially sensitive; details will be made public as and when they are released.

Operating and financial review (continued)

Nasstar's relationship with Microsoft and Citrix

It is worth examining this in outline to make it clear how Nasstar fits in. Nasstar is a Microsoft Gold Certified Partner and licences Microsoft software under its Service Provider License Agreement (SPLA). Microsoft Windows, Office Professional and Exchange email are at the core of Nasstar Hosted Desktop, but the important point to make is that it is not just a Microsoft solution. In addition to the core Microsoft applications that come as standard with Nasstar Hosted Desktop, other software vendor applications are also hosted and delivered to the customers' Hosted Desktop. The customers provide their own licencing for these and Nasstar provides the hosting infrastructure to deliver the applications to their desktops. Invariably each customer who adopts Nasstar Hosted Desktop also has one or more other applications, such as Sage accounting or Salesforce CRM or other industry or company specific software. Nasstar Hosted Desktop has created the infrastructure to ensure these additional applications can be hosted and delivered as part and parcel of the service. 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 also applications supplied by other software vendors. We believe this approach provides a more future-proof approach as large software vendors will not be interested in hosting other vendors' software, thereby requiring an intermediary service provider such as Nasstar to package up the different applications and deliver them to the end customer as a cloud service.

Citrix technology is used by Nasstar as part of the Hosted Desktop solution and Nasstar is a Citrix Service Provider Partner. Nasstar was the only UK company to pilot Citrix's SPLA programme between June 2008 and May 2009 following which Citrix decided to make the programme available for everyone. Nasstar's participation in the pilot was confidential and commercially sensitive. In addition to providing Nasstar and other service providers with their XenApp product, Citrix also provide XenDesktop and GoToMyPC. These products are different to Nasstar Hosted Desktop and the difference is explained below in the section on competition.

Competition

We have seen the emergence of a number of competitors over the past year. The presence of competition is a clear indicator of the growing market and it benefits Nasstar by raising awareness of the product and validating it. None of our UK hosted desktop competitors are quoted and they do not make their user numbers public. Nasstar, being publicly quoted, is delighted to publish its user numbers, so the competition can see how we are doing. Nasstar has clearly established a strong reputation in the market place evidenced by the inbound interest from potential partners and customers.

Nasstar uses Citrix XenApp as the means by which Nasstar Hosted Desktop is accessed. Citrix also provide a product called Citrix XenDesktop and a TV-advertised product called GoToMyPC. Citrix XenDesktop is a virtual desktop product which takes the whole desktop operating system and hosts it in a virtualised server environment. This differs from Nasstar Hosted Desktop which only publishes a desktop 'theme' based on Windows server. Nasstar Hosted Desktop does not therefore deliver the entire operating system to the end user but instead delivers the look and feel of a Windows desktop but without the ability of the end user to change their desktop environment. In a sense therefore Nasstar Hosted Desktop is a 'locked down' desktop rather than the whole operating system delivered by XenDesktop. There are therefore some significant differences in respect of XenApp and XenDesktop. In our view, whilst XenDesktop will appeal to certain customers, Nasstar Hosted Desktop is more scalable and is likely to carry a much lower support cost. As regards GoToMyPC, this product enables you to remotely access your office PC through establishing a remote connection via a web browser. This is a very different proposition to Nasstar Hosted Desktop as it pre-supposes the existence of a PC at your workplace or home which has your data and applications installed on it. In summary this product simply connects you to your existing on-premise environment and therefore does not provide many of the benefits of Nasstar Hosted

Operating and financial review (continued)

Desktop such as removal of capital expenditure and secure hosting of your business data in the cloud environment.

Nasstar Hosted Desktop - product summary and benefits

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 in the cloud. 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 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 Microsoft software licences 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 and given that asset finance is increasingly scarce, this would seem to be 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 data centre rather than on local PCs and laptops. We believe that the removal of data from local machines to a secure cloud environment reduces the risk of lost or stolen 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 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, or even from an iPhone. 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 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.

Charles Black
Chief Executive Officer
21 January 2010

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2009.

Results and dividends

The Group made a loss for the year after taxation of £939,000 (2008: loss £132,000). Further details are shown in the Consolidated Income Statement on page 15.

No dividends were paid during the year. The Directors do not recommend a dividend (2008: nil).

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 2010 are contained in the Chairman's statement on page 3 and the Operating and Financial Review on pages 4 to 7.

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:

	2009	2008
Users:		
Hosted Desktop	1,149	508
Hosted Exchange	9,151	7,726
	£000	£000
Revenues	2,018	2,101
Operating costs, including cost of sales	2,646	2,154
Cash and cash equivalents	400	65

Capital structure

At 1 October 2008 the Company's issued share capital comprised 16,096,556 ordinary shares of 1 pence each. There have been the following changes in the issued share capital during the year:

- On 9 January 2009 120,000 ordinary shares were issued at a premium of 24p each
- On 12 March 2009 700,000 ordinary shares were issued at a premium 24p each
- On 25 September 2009 15,000,000 ordinary shares were issued at a premium of 5p each

Net funds raised amounted to £1,090,000. 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 31,916,556 ordinary shares of 1p each.

Directors' report (continued)

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 believe the market to be a fast growing one, 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 25 of these financial statements.

Directors

The following directors have held office since 1 October 2008:

Lord Daresbury
 C M A Black
 D P Greef
 M A Eve
 K L Bird (resigned 17 July 2009)
 R P Francis (resigned 17 July 2009)

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

Directors' interests

The directors who held office at 30 September 2009 had the following interests in the shares of the Company:

	Ordinary shares of 1 pence each		
	Shareholding %	30 September 2009	1 October 2008
Lord Daresbury	17.86%	5,701,062	3,201,062
C M A Black	27.78%	8,865,832	6,632,500
D P Greef	8.33%	2,657,881	907,881

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
D P Greef	22	100,000	27 April 2007
	39	20,000	6 May 2008
	30	15,000	12 September 2008
	6	300,000	25 September 2009

Directors' report (continued)

No options were exercised by directors during the year.

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 19 January 2010:

	Ordinary shares of 1 pence each	
	Shareholding %	Number
Barclayshare Nominees Limited	3.84	1,239,591
HSBC Global Custody Nominee (UK) Limited	4.24	1,368,845
KL Bird	4.33	1,395,545
TD Waterhouse Nominees (Europe) Limited	5.01	1,617,632

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 96 days (2008: 116 days) purchases outstanding.

Political and charitable donations

The Group made no political or charitable donations in the year (2008: 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.

During the year under review, Damion Greef became a full time working Director and his salary was increased accordingly. Share options were granted to directors as set out above.

Details of Directors' remuneration is set out in notes 8 and 29.

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 2009 is attached with these financial statements.

Approved by the Board and signed on its behalf by:

M A Eve
Company Secretary
21 January 2010

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

Nasstar plc
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Independent auditors' report to the shareholders of Nasstar plc

We have audited the consolidated financial statements of Nasstar plc for the year ended 30 September 2009 which comprise the consolidated income statement, the consolidated and company balance sheets, the consolidated and company cash flow statements, 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 sections 495 and 496 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

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.

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 2009 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.

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.

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

Matters on which we are required to report by exception

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

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

David Atkinson (Senior statutory auditor)

for and on behalf of Gerald Edelman, Statutory auditors

Chartered Accountants & Registered Auditors

London

21 January 2010

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Consolidated income statement

	Note	2009 £000	2008 £000
Revenue	4	2,018	2,101
Cost of sales		(912)	(495)
Gross profit		<u>1,106</u>	<u>1,606</u>
Operating and administrative expenses		(1,734)	(1,659)
Exceptional costs	10	(91)	-
Share-based payments	21	(33)	(28)
Total operating and administrative expenses		<u>(1,858)</u>	<u>(1,687)</u>
Other operating income		-	113
Operating (loss)/profit	6	(752)	32
Finance expense	11	(190)	(161)
Loss before taxation		(942)	(129)
Taxation	12	3	(3)
Loss for the year attributable to shareholders		<u>(939)</u>	<u>(132)</u>
Loss per share:			
Basic and diluted	13	<u>(5.6)p</u>	<u>(0.9)p</u>

All amounts relate to continuing operations.

The notes on pages 19 to 42 form part of these financial statements.

Nasstar plc
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Registered in England and Wales No. 5623736

Balance sheets

	Note	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Assets					
Non-current assets					
Goodwill	14	844	844	-	-
Intangible assets	15	196	153	-	-
Property, plant and equipment	16	415	421	-	-
Investments	17	-	-	1,158	1,158
Deferred taxation	23	175	175	-	-
		<u>1,630</u>	<u>1,593</u>	<u>1,158</u>	<u>1,158</u>
Current assets					
Trade and other receivables	18	468	533	836	428
Cash and cash equivalents	19	400	65	565	1
		<u>868</u>	<u>598</u>	<u>1,401</u>	<u>429</u>
Total assets		<u>2,498</u>	<u>2,191</u>	<u>2,559</u>	<u>1,587</u>
Equity and liabilities					
Capital and reserves attributable to equity holders of the parent					
Share capital	20	319	161	319	161
Share premium		2,404	1,472	2,404	1,472
Merger reserve		662	662	-	-
Retained deficit		(2,215)	(1,309)	(323)	(110)
Total equity		<u>1,170</u>	<u>986</u>	<u>2,400</u>	<u>1,523</u>
Non-current liabilities					
Interest-bearing loans and borrowings	22	94	110	5	-
Current liabilities					
Interest-bearing loans and borrowings	22	162	195	3	-
Trade and other payables	24	1,072	900	151	64
		<u>1,234</u>	<u>1,095</u>	<u>154</u>	<u>64</u>
Total equity and liabilities		<u>2,498</u>	<u>2,191</u>	<u>2,559</u>	<u>1,587</u>

The financial statements were approved and authorised for issue by the Board of Directors on 21 January 2010 and signed on its behalf by:

C M A Black, Chief Executive

M A Eve, Director

The notes on pages 19 to 42 form part of these financial statements.

Statements of changes in equity

Group	Attributable to equity holders of the Company				
	Share Capital £000	Share Premium £000	Merger Reserve £000	Retained Deficit £000	Total Equity £000
At 1 October 2007	145	1,031	662	(1,205)	633
Loss for the year recognised in profit and loss	-	-	-	(132)	(132)
Total recognised income and expense in the year	-	-	-	(132)	(132)
Shares issued in year	16	441	-	-	457
Share-based payment recognised in equity (note 21)	-	-	-	28	28
At 1 October 2008	161	1,472	662	(1,309)	986
Loss for the year recognised in profit and loss	-	-	-	(939)	(939)
Total recognised income and expense in the year	-	-	-	(939)	(939)
Shares issued in year	158	932	-	-	1,090
Share-based payment recognised in equity (note 21)	-	-	-	33	33
At 30 September 2009	319	2,404	662	(2,215)	1,170

Company	Attributable to equity holders of the Company			
	Share Capital £000	Share Premium £000	Retained Deficit £000	Total equity £000
At 1 October 2007	145	1,031	(10)	1,166
Loss for the year recognised in profit and loss	-	-	(128)	(128)
Total recognised income and expense in the year	-	-	(128)	(128)
Shares issued in year	16	441	-	457
Share-based payment recognised in equity (note 21)	-	-	28	28
At 1 October 2008	161	1,472	(110)	1,523
Loss for the year recognised in profit and loss	-	-	(246)	(246)
Total recognised income and expense in the year	-	-	(246)	(246)
Shares issued in year	158	932	-	1090
Share-based payment recognised in equity (note 21)	-	-	33	33
At 30 September 2009	319	2,404	(323)	2,400

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 19 to 42 form part of these financial statements.

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Cash flow statements

	Note	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Cash flow from operating activities					
Operating (loss)/profit before taxation	6	(752)	32	(246)	(128)
Adjustments for:					
Depreciation and amortisation	15,16	400	322	-	-
Share-based payments	21	33	28	33	28
Profit on sale of plant and equipment		-	(113)	-	-
Corporation tax paid	12	3	(3)	-	-
Net cash flow from operating activities before changes in working capital		(316)	266	(213)	(100)
Decrease/(increase) in trade and other receivables		65	(219)	(408)	(271)
Increase in trade and other payables		172	88	87	(85)
Net cash flow generated from operating activities		(79)	135	(534)	(456)
Investing activities					
Payments for intangible assets	15	(160)	(206)	-	-
Payments for property, plant and equipment	16	(277)	(399)	-	-
Proceeds from the sale of property, plant and equipment		-	115	-	-
Net cash flow from investing activities		(437)	(490)	-	-
Financing activities					
Issue of ordinary shares		1,090	457	1,090	457
Proceeds from lease-finance arrangements		239	235	10	-
Repayment of lease-finance arrangements		(288)	(119)	(1)	-
Interest paid	11	(190)	(161)	(1)	-
Net cash flow from financing activities		851	412	1,098	457
Net increase/(decrease) in cash and cash equivalents in the year		335	57	564	1
Cash and cash equivalents at the beginning of the year	19	65	8	1	-
Cash and cash equivalents at the end of the year	19	400	65	565	1

The notes on pages 19 to 42 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 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 £939,000 and net current liabilities of £366,000. 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.

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 £246,000 (2008: loss £128,000) in respect of the Company which is dealt with in the financial statements of the 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 2008) (effective as of 1 January 2009).
- IAS 23: Borrowing Costs (Revised 2008) (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).
- IFRS 9: Financial instruments (effective as of 1 January 2013 – not yet endorsed by the EU).
- IFRIC Interpretation 12: Service Concession Arrangements (effective as of 1 January 2009).
- IFRIC Interpretation 13: Customer Loyalty Programmes (effective as of 1 July 2009).
- IFRIC Interpretation 14: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective as of 1 July 2009).
- Amendment to IFRIC 14: Prepayments of a Minimum Funding Requirement (effective as of 1 January 2011, not yet endorsed by the EU).
- IFRIC Interpretation 15: Agreements for the Construction of Real Estate (effective as of 1 January 2009).
- IFRIC Interpretation 16: Hedges of a Net Investment in a Foreign Operation (effective as of 1 October 2009).

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- IFRIC Interpretation 17: Distributions of non-cash assets to owners (effective 1 July 2009).
- IFRIC Interpretation 18: Transfers of assets from customers (effective 1 July 2009, not yet endorsed by the EU).
- IFRIC Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (effective as of 1 July 2010, 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).
- 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).
- 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.
- Amendment to IFRS 7: Improving Disclosures about Financial Instruments (effective as of 1 January 2009, not yet endorsed by the EU).
- Amendments to IFRIC 9 and IAS 39: Embedded Derivatives (effective as of 30 June 2009, not yet endorsed by the EU).
- Improvements to IFRSs (effective date is various, earliest is as of 1 January 2009, not yet endorsed by the EU).
- Amendment to IFRS 2: Group Cash-settled Share-based Payment Transactions (effective as of 1 January 2010, not yet endorsed by the EU).
- Amendment to IFRS 1: Additional Exemptions for First-Time Adopters (effective as of 1 January 2010, not yet endorsed by the EU).
- Amendment to IAS 32: Classification of Rights Issues (effective as of 1 February 2010, not yet endorsed by the EU).
- Revised IAS 24: Related-Party Disclosures (effective as of 1 January 2011, not yet 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 IAS23: Borrowing Costs (Revised) which will require interest incurred in respect of long-term development projects to be capitalised within the relevant project and 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. 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 bank overdrafts.

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.

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 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 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 associates.

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 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 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.

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. All revenue arises in the United Kingdom.

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

	2009	2008
	£000	£000
United Kingdom	1,932	2,034
Rest of the World	86	67
Total revenue	2,018	2,101

5 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 and in one market, the United Kingdom, 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.

The Group had one overseas customer in the year.

6 Operating (loss)/profit

	2009	2008
	£000	£000
Operating (loss)/profit of the Group for the year is stated after charging:		
Amortisation of intangible assets	117	71
Depreciation of plant and equipment	283	251
Staff costs (note 7)	1,010	963
Auditors' remuneration (note 9)	14	20
Operating lease rentals	32	32

7 Staff numbers and costs:

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

	2009	2008
	Number	Number
Technical	7	8
Sales	2	5
Administration & Customer service	7	5
	16	18

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

	2009	2008
	£000	£000
Wages and salaries	895	847
Social security costs	82	88
Share-based payments	33	28
	1,010	963

8 Directors' emoluments

Directors' emoluments for the year were as follows:

	2009	2008
	£000	£000
Salaries and fees	318	300
Payment in lieu of notice	70	-
Pension costs	3	5
Share-based payments	27	25
	418	330

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest-paid director was £137,000 (2008: £115,000).

There are no key management personnel other than the directors. Directors' emoluments analysed by director are shown in note 29.

9 Auditors' remuneration (Group and Company)

	2009	2008
	£000	£000
Fees payable for the audit of the Group's financial statements	12	18
Fees payable for tax compliance	2	2
	14	20

10. Exceptional items

Exceptional items comprise costs of £91,000 incurred by the company relating to a transaction with a third party that was not completed.

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11 Finance expense	2009 Group £000	2008 Group £000	2009 Company £000	2008 Company £000
Bank interest payable	15	13	-	1
Finance lease interest payable	83	71	1	-
Other finance costs	92	77	-	-
	<u>190</u>	<u>161</u>	<u>1</u>	<u>1</u>

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

12 Taxation	2009 £000	2008 £000
UK Corporation tax		
Current tax on income for the year at 21%	-	-
Adjustment in respect of prior periods	(3)	3
Current tax charge for the year	<u>(3)</u>	<u>3</u>
Deferred taxation		
Deferred taxation current year (see note 23)	-	-
Tax on loss on continuing operations	<u>(3)</u>	<u>3</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:

	2009 £000	2008 £000
Loss before tax	<u>(942)</u>	<u>(129)</u>
Loss on continuing operations multiplied by the standard rate of corporation tax in the UK of 21% (2008: 19%)	(198)	(25)
Expenses not deductible for tax purposes	21	3
Other timing differences	83	32
Loss brought forward/carried forward	94	(10)
Prior period adjustment	(3)	3
Tax on loss on continuing operations	<u>(3)</u>	<u>3</u>

Factors that may affect the future tax charge

Unrelieved tax losses of approximately £1,813,000 (2008: £1,367,000) 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 £939,000 (2008: loss £132,000) and a weighted average number of shares in issue for the year of 16,776,227 (2008: 14,786,768).

The diluted loss per share in 2009 and 2008 is the same as the basic loss per share as the losses have an anti-dilutive effect.

14 Goodwill

	Group £000
At 30 September 2008 and 30 September 2009	844

15 Intangible assets

Group	Website £000	Computer Software £000	Total £000
Cost			
At 1 October 2007	-	52	52
Additions	58	148	206
At 30 September 2008	58	200	258
Additions	10	150	160
At 30 September 2009	68	350	418
Amortisation			
At 1 October 2007	-	(34)	(34)
Amortisation	(22)	(49)	(71)
At 30 September 2008	(22)	(83)	(105)
Amortisation	(33)	(84)	(117)
At 30 September 2009	(55)	(167)	(222)
Net book value			
At 30 September 2009	13	183	196
At 30 September 2008	36	117	153
At 1 October 2007	-	18	18

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16 Property, plant and equipment

Group	Computer equipment £000	Office equipment and fixtures £000	Total £000
Cost			
At 1 October 2007	739	49	788
Additions	381	18	399
Disposals	(178)	-	(178)
At 30 September 2008	942	67	1,009
Additions	276	1	277
At 30 September 2009	1,218	68	1,286
Depreciation			
At 1 October 2007	(495)	(18)	(513)
Charge for the year	(235)	(16)	(251)
Disposals	176	-	176
At 30 September 2008	(554)	(34)	(588)
Charge for the year	(267)	(16)	(283)
At 30 September 2009	(821)	(50)	(871)
Net book value			
At 30 September 2009	397	18	415
At 30 September 2008	388	33	421
At 1 October 2007	244	31	275

Included within property, plant and equipment are the following amounts at 30 September 2009 held under finance leases:

	Cost £000	Depreciation £000	Net book value £000
At 30 September 2009	803	509	294
At 30 September 2008	564	310	254

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17 Investments	Shares in subsidiaries £000
Cost	
At 30 September 2008 and 30 September 2009	<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	United Kingdom	Application Service Provider	100
Network Support International Limited	United Kingdom	Application Service Provider	100

18 Trade and other receivables	2009 Group £000	2008 Group £000	2009 Company £000	2008 Company £000
Trade debtors	229	294	-	-
Less provision for impairment	-	(15)	-	-
Trade debtors – net	229	279	-	-
Amounts owed by Group companies	-	-	821	406
Prepayments	101	150	3	17
Other debtors	138	104	12	5
	<u>468</u>	<u>533</u>	<u>836</u>	<u>428</u>
Included above are amounts due in more than one year of:	75	78	-	-

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.

19 Cash and cash equivalents	2009 Group £000	2008 Group £000	2009 Company £000	2008 Company £000
Cash at bank	400	65	565	1

Cash and cash equivalents comprise cash.

There is no significant difference between the fair-value of the cash and cash equivalents and the values stated above.

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20 Share capital	2009	2008
	Group and	Group and
	Company	Company
	£000	£000
Authorised:		
1,000,000,000 ordinary shares of 1 pence each	10,000	10,000
Called up, allotted and fully paid:		
31,916,556 (2008: 16,096,556) ordinary shares of 1 pence each	319	161

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

On 9 January 2009 the Company issued 120,000 ordinary shares of 1 pence each at a price of 25 pence.

On 12 March 2009 the Company issued 700,000 ordinary shares of 1 pence each at a price of 25 pence.

On 25 September 2009 the Company issued 15,000,000 ordinary shares of 1 pence each at a price of 6 pence.

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 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.

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EMI Options and Unapproved Options (together the Options) have been granted over 3,097,000 (2008: 2,189,500) ordinary shares in aggregate to directors and staff under the schemes and representing approximately 9.7% of the issued share capital as at 30 September 2009, as set out below:

30 September 2009	No. of share options	Weighted average exercise price (pence)	Price range (pence)	Weighted average contract life (years)
Outstanding at beginning of year	2,189,500	22.9	12 to 39	
Granted during the year	1,042,500	6.0	6	
Cancelled during the year	(135,000)	38.0	30 to 39	
Outstanding at the end of the year	3,097,000	16.8	6 to 39	8.28
Exercisable at the end of the year	1,309,500	16.0	12 to 24	
30 September 2008				
	No. of share options	Weighted average exercise price (pence)	Price range (pence)	Weighted average contract life (years)
Outstanding at beginning of year	1,646,000	15.6	12 to 24	
Granted during the year	830,000	33.8	30 to 39	
Cancelled during the year	(16,500)	24.0	24	
Exercised in the year	(270,000)	12.0	12	
Outstanding at the end of the year	2,189,500	22.9	12 to 39	8.46
Exercisable at the end of the year	909,500	13.4	12 to 24	

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As at 30 September 2009, outstanding options granted under the share option schemes were as follows:

Date of grant	Exercise period	Share options held at 30 September 2009	Share options held at 30 September 2008	Exercise price (pence)
8 Dec 2005	Dec 2007 - Dec 2015	750,000	750,000	12
19 Dec 2005	Dec 2007 - Dec 2015	107,500	107,500	24
27 Apr 2007	Apr 2009 - Apr 2017	400,000	450,000	22
6 May 2008	May 2010 - May 2018	280,000	350,000	39
12 Sep 2008	Sep 2010 - Sep 2018	465,000	480,000	30
25 Sep 2009	Sep 2011 - Sep 2019	1,042,500	-	6
20 Dec 2005	See below	52,000	52,000	12
		3,097,000	2,189,500	

On 20 December 2005, the Company entered into an option agreement pursuant to which the Company granted options to W.H. Ireland to subscribe for 52,000 Ordinary Shares in the Company. The said Options are exercisable at any time from the grant for a period of five years at 12p per share.

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

	2009	2008
Weighted average share price in pence	20.7	33.8
Weighted average exercise price in pence	20.7	33.8
Expected volatility	27%	26%
Expected life in years	3.5	3.5
Risk-free rate	4.4%	4.4%
Expected dividends	None	None
	Group and Company 2009 £000	Group and Company 2008 £000
The charge to profit and loss for the year	33	28

Expected volatility was determined by calculating the volatility in the share price over the 12 months to 30 September 2009 and for options granted in the year to 30 September 2009.

22 Interest-bearing loans and borrowings

Non-current

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Lease finance obligations	94	110	5	-

Current

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Lease finance obligations	162	195	3	-

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 either not significant or not significantly different from the Group's.

	Effective interest rate	Group Total 2009 £000	Group Current 2009 £000	Group 1-2 Years 2009 £000	Group 2-5 years 2009 £000
Cash at bank and other deposits	1.0%	400	400	-	-
Lease finance facilities	11.25%	360	224	136	-
		2008 £000	2008 £000	2008 £000	2008 £000
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 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £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	-	-
Disclosed as:				
Non-current assets	175	175	-	-

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

	Group 2009 £000	Group 2008 £000	Company 2009 £000	Company 2008 £000
Tax losses	212	91	55	28
Other timing differences	28	19	-	-
Accelerated capital allowances	51	(7)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	291	103	73	28

The Group has unrecognised tax losses of approximately £1.8m (2008: £1.4m).

24 Trade and other payables

	2009 Group £000	2008 Group £000	2009 Company £000	2008 Company £000
Trade payables	386	335	118	60
Other tax and social security	93	132	-	-
Other creditors	233	100	9	-
Accruals and deferred income	360	333	24	4
	<hr/>	<hr/>	<hr/>	<hr/>
	1,072	900	151	64

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

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 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 £175,000, of which £165,000 was utilised during the year, 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	2009 £	Change in rate	2008 £
Sterling	- 0.5%	1,279	- 0.5%	1,525
	- 1.0%	2,558	- 1.0%	3,050
	- 1.5%	3,836	- 1.5%	4,575
Sterling	+ 0.5%	(1,279)	+ 0.5%	(1,525)
	+ 1.0%	(2,558)	+ 1.0%	(3,050)
	+ 1.5%	(3,836)	+ 1.5%	(4,575)

Fair value of financial liabilities

	2009 £000	2008 £000
Obligations under lease finance arrangements	256	305
Trade and other payables	619	335
	875	640

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.

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26 Operating lease commitments	2009	2008	2009	2008
	Group	Group	Company	Company
	£000	£000	£000	£000
Expiry date:				
Within one year	32	-	-	-
Between one and two years	-	32	-	-
Between two and five years	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	32	32	-	-
	<hr/>	<hr/>	<hr/>	<hr/>

Operating lease obligations comprise property rentals.

27 Post-balance sheet events

There are no significant post-balance sheet events arising since 30 September 2009.

28 Capital commitments

There were no capital commitments as at 30 September 2009.

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	Payment in lieu of notice	Pension costs	Share- based payments	Total	Salary and fees	Pension costs	Share- based payments	Total
	2009	2009	2009	2009	2009	2008	2008	2008	2008
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Lord Daresbury	40	-	-	7	47	15	-	6	21
C M A Black	125	-	-	14	139	100	-	15	115
D P Greef	43	-	-	6	49	12	-	2	14
M A Eve (appointed 6 December 2007)	37	-	-	-	37	53	-	-	53
K L Bird (resigned 17 July 2009)	61	70	3	-	134	80	5	-	85
R P Francis (appointed 28 April 2008, resigned 17 July 2009)	12	-	-	-	12	5	-	-	5
S I Johnston (resigned 28 April 2008)	-	-	-	-	-	32	-	2	34
A R Malkin (resigned 6 December 2007)	-	-	-	-	-	3	-	-	3
	318	70	3	27	418	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 2009 £21,798 (2008: £11,553) was outstanding to FD Solutions.

R P Francis's remuneration was paid to RTH Associates Limited, of which he is a director.

On 21 July 2009 Nasstar (UK) Limited entered into a second 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 of computer equipment for £43,000 (2008: £161,000) on arms-length business terms under lease finance.

At 30 September 2009, Nasstar (UK) Limited had an outstanding loan of £135,000 from Lord Daresbury (2008: £50,000). This loan is interest-free and repayable on demand and was made in order to assist with short-term working capital. This loan was repaid in full by 9 October 2009.