



Nasstar plc

Report and financial statements for the year ended 30 September 2010

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Nasstar plc
Report and financial statements for the year ended 30 September 2010

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

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

Chairman's statement

Highlights

- Turnover £2.35m (2009: £2.02m)
- EBITDA* profit of £301,000 (2009: loss £319,000)
- Reduced loss after tax of £302,000 (2009: loss £939,000)
- 39% increase in live Hosted Desktop subscribers in the year from 1,149 to 1,600
- 50 Partners signed up as at 30 September 2010 (2009: 16)
- £340,000 new equity raised during the year

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

Chairman's Statement

I am pleased to report that we have made good progress this year with an increase in sales of 16% to £2.35m. As well as achieving this strong sales growth, the Company has released a new version of Hosted Desktop and attracted new Partners wishing to take the product to market. Nasstar is now a 'pure play' hosted desktop company with a focused channel route to market.

Nasstar's strategy is now built on the twin pillars of intellectual property development and commercialisation of that intellectual property through channel Partner distribution. Our vision is to achieve volume sales through our Partners whilst continuing to enhance the value of our Hosted Desktop application.

Our sales pipeline is substantial and there are some opportunities which we are working on that would deliver significant increases in current volume. Patience is a difficult but important quality to maintain when you are early to market with a product that has large potential but which takes time for mainstream acceptance to catch up with the early adopters. In this respect it has been difficult to predict when the market for Hosted Desktop will enter the mainstream, a task made more difficult due to the challenges brought about by a tough economic environment during the early stages of marketing the product, which has slowed down the desire of businesses to adopt transformational changes to their IT structure. However, our focus is simple – to do the best job we can to ensure that we are placed in the best position to capitalise on the market when adoption of Hosted Desktop moves to the mainstream. We are seeing more evidence that the market is finally moving forward as we had hoped. We are confident in our strategy of IP development and Partner distribution and we are confident that sales of Nasstar Hosted Desktop will continue to grow. We look forward to 2011 with enthusiasm.

Lord Daresbury
Chairman
17 December 2010

Operating and financial review

This year, we have continued with our vision of becoming a leader in the provision of hosted desktop cloud computing whilst also working on strengthening the Company's financial position. To achieve our vision we have focused on two key areas - developing our intellectual property ("IP") in Hosted Desktop and distributing that IP through Partners.

In terms of our IP development we have made a lot of progress this year, releasing Hosted Desktop version 7, which delivers the benefits of Windows 7 and Microsoft Office Professional 2010, as well as further developments on the management portal used by Partners and customers to manage aspects of the service. We continue to enhance the IP with new developments focused on making Hosted Desktop a scalable platform for aggregating business applications and web content filtering. The App Store which we are developing will give customers the ability to choose certain applications on-demand, making Hosted Desktop even more flexible.

In respect of our route to market, whilst we retain direct relationships with existing customers and continue to manage opportunities which had already entered the sales pipeline by the summer of this year, all potential sales are now being channeled through our Partners. There are a number of reasons for this approach. Firstly, we now have sufficient Partners who have been trained to handle sales opportunities and, secondly, our Partners add value through additional services and support. Whilst our margins are slightly lower with channel distribution, our volume will be greater and we will free our resources to continue to develop our IP in the product. We have over 50 Partners, mostly based in the UK but some are established overseas.

The above strategy makes Nasstar a 'pure play' hosted desktop company focused on IP development with volume distribution through Partners both in the UK and overseas.

Financial review

Sales grew during the year with turnover and subscriber numbers increasing 20% and 40% respectively. We reduced losses before tax by £640,000 from £942,000 to £302,000 and turned EBITDA positive. This turnaround from the previous year has been brought about by a reduction in costs and an increase in sales.

We raised a further £340,000, after expenses, in February 2010 from a placing to provide additional working capital.

Employees

We are fortunate to benefit from a very hard-working and skilled team of employees who believe in our vision and pursue it with passion and professionalism. During the year we have maintained fairly constant levels of technical resource though we have recruited additional technical staff since the year end. We anticipate recruiting additional technical resource as the business grows and as we continue to develop our intellectual property and grow the subscription base.

Partner programme

During the year we increased the number of Partners. We are working closely with our Partners on converting sales opportunities from a large sales pipeline that has been built up and that continues to expand. The Partner programme gives the Company geographical reach both in the UK and overseas and we now have over 50 Partners, five of whom are based overseas. We believe that there is no need to increase significantly the number of Partners that we deal with. Rather, we will concentrate on delivering sales through the Partners who we do have, reviewing their performance and, where necessary, selecting new Partners on their ability to deliver subscriber growth.

Operating and financial review – continued

Hosted Exchange

Our Hosted Exchange subscriber base has remained fairly stable and we have maintained our high standards of service. We own the domain hostedexchange.com and this comes high in Google search results; invariably occupying a top-3 position. From the first quarter of 2011, we will begin migrating our hosted exchange users to a new hosted exchange 2010 platform, such a platform being built using the latest version of Microsoft Exchange. We have entered into an agreement with a third party to provide this service and we do not therefore anticipate any substantial capital expenditure in respect of the hosted exchange platform. What matters is that we continue to provide the highest levels of service to customers and promote Nasstar Hosted Desktop to the exchange subscriber customer base. In essence we are outsourcing the infrastructure for hosted exchange so that we can focus all our resources, both technical and capital, on growing our Hosted Desktop business because we believe that that is the key to maximising the value of our business.

(b) Market review

The cloud computing market

Cloud computing is a very broad market and, at its broadest, the term 'cloud computing' is being used to describe any service delivered over the internet. A purist would consider cloud computing to have certain essential characteristics including usage-based payment and multi-tenanted architecture – the idea of physical infrastructure and software applications being shared by multiple customers. 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 'cloudscape'.

Infrastructure as a Service (IaaS)

The cloud computing alternative to traditional hosting offers customers, usually service providers, the opportunity to rent servers, processing power and storage rather than buying the servers and locating them in a data centre. Providers of Infrastructure as a Service include companies such as Rackspace, Amazon Web Services and Microsoft with its Azure product. Amazon Web Services is 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 Web Services, offering customers the ability to buy on-demand Microsoft operating systems, processing power and storage from a Microsoft data centre. Certain hardware manufacturers such as HP 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.

Operating and financial review – continued

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, iPhone, iPad or other access device.

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 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, we are at the coal face. Our experience is that the market has been slower to adopt hosted desktop than we envisaged, largely in my view due to the challenges facing SMEs during tough economic times. However, we are now experiencing a much stronger sales pipeline and seeing some much shorter sales cycles and this evidence indicates that the market is finally heading in the direction of going mainstream.

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 2010 with the release of Hosted Desktop 7, that delivers the benefits of Windows 7, Microsoft Office Professional 2010, a wide choice of web browsers, multiple languages and a number of other applications. Development continues including an 'app store' that will enable customers and Partners to add certain additional applications through point and click within the management portal. We are also developing content filtering options that plug-in to the web browsing functionality of Hosted Desktop.

Operating and financial review – continued

Competition

A number of UK companies offer hosted desktop or a virtual desktop service. Larger companies that could be said to offer an alternative include Google with their Google Apps or Microsoft with their online services and Office 365 product. The latter provides different options that include hosted exchange, sharepoint and online office apps as well as the ability to purchase a full Office Professional desktop license to install on a local machine. We are confident that in terms of the quality of Nasstar Hosted Desktop and our ability to distribute through Partners we are in a very strong position. Although some of the larger players offer SaaS solutions, Nasstar Hosted Desktop is a platform for delivering applications from multiple vendors in the cloud – not just Microsoft, but Open Office, Sage, Quickbooks and many other applications. We believe that this approach puts Nasstar Hosted Desktop in a strong position because (a) the whole solution is cloud based, and (b) customers are buying a service and invariably need software from multiple vendors. Nasstar Hosted Desktop is an application but also a service and as such we believe it offers more than a single software vendor can offer.

Outlook

The market for hosted desktop has been slower over the past two years than I originally expected. As noted by the Chairman, it is always difficult when your business is an early driver for a new product to know when the market will begin to commoditise. It is still early days for the Hosted Desktop market but the signs of a faster-moving market are now showing with a shorter sales cycle for some opportunities and the number and size of enquiries rising significantly. The key now is converting the ever growing sales pipeline into real business and in that respect we are very excited about our prospects for 2011. We are very well placed to win new business and we view the future with confidence.

Charles Black
Chief Executive Officer
17 December 2010

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2010.

Results and dividends

The Group made a loss for the year after taxation of £302,000 (2009: loss £939,000). Further details are shown in the Consolidated Statement of Comprehensive Income on page 15.

No dividends were paid during the year. The Directors do not recommend a dividend (2009: nil).

Principal activities

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

Review of the business

The review of the Group's activities and performance for the year and its prospects for 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:

	2010	2009
Users:		
Hosted Desktop	1,600	1,149
Hosted Exchange	9,311	9,151
	£000	£000
Revenues	2,350	2,018
Operating costs, including cost of sales	2,466	2,646
Current assets (excluding cash)	460	468
Current liabilities	649	1,234
Cash and cash equivalents	5	400

Capital structure

At 1 October 2009 the Company's issued share capital comprised 31,916,556 ordinary shares of 1p each. There have been the following changes in the issued share capital during the year:

- On 25 February 2010, 3,816,668 ordinary shares were issued at a premium of 8p each

Net funds raised, after expenses, amounted to £340,000. 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 35,733,224 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 believes that the market is fast-growing, it is likely that competition will increase, which could affect the Group's sales performance. Large and well funded businesses may decide to enter the market and this could affect the Group's ability to achieve its sales forecasts. As the market becomes more competitive and commoditised there is a risk that the Group's gross profit margin per user may reduce.

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

Directors

The following directors have held office since 1 October 2009:

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

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

Directors' interests

The directors who held office at 30 September 2010 had the following interests in the shares of the Company:

	Ordinary shares of 1 pence each		
	Shareholding %	30 September 2010	1 October 2009
Lord Daresbury	15.95%	5,701,062	5,701,062
C M A Black	24.81%	8,865,833	8,865,833
D P Greef	7.44%	2,657,881	2,657,881
M A Eve	0.27%	95,000	-

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Directors' report – continued

Directors' share options

The directors' interests in share options are:

	Option price (p)	Number granted	Date of grant
C M A Black	12	750,000	8 December 2005
	22	200,000	27 April 2007
	39	50,000	6 May 2008
	30	150,000	12 September 2008
	10	400,000	22 December 2009
Lord Daresbury	22	100,000	27 April 2007
	39	35,000	6 May 2008
	30	300,000	12 September 2008
	10	100,000	22 December 2009
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

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 14 December 2010:

	Ordinary shares of 1 pence each	
	Shareholding %	Number
TD Waterhouse Nominees (Europe) Limited	3.87	1,383,528
Mrs J Hill	4.20	1,500,000
SN Hill	4.20	1,500,000
HSBC Global Custody Nominee (UK) Limited	4.58	1,636,845
Redmayne (Nominees) Limited	9.22	3,295,982

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 57 days (2009: 96 days) purchases outstanding.

Political and charitable donations

The Group made no political or charitable donations in the year (2009: nil).

Directors' report – continued

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.

Corporate Governance

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

Board Meetings

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

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

The Audit Committee

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

The Remuneration Committee

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

Details of Directors' remuneration are set out in notes 8 and 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 2010 is attached with these financial statements.

Approved by the Board and signed on its behalf by:

M A Eve
Company Secretary
17 December 2010

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

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 2010 which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statements of financial position, the Consolidated and Company statements of cash flows, the Consolidated and Company statements of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

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

Scope of the audit

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 2010 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

17 December 2010

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Consolidated statement of comprehensive income

	Note	2010 £000	2009 £000
Revenue	4	2,350	2,018
Cost of sales		(1,108)	(912)
Gross profit		<u>1,242</u>	<u>1,106</u>
Operating and administrative expenses		(1,358)	(1,734)
Exceptional costs	10	-	(91)
Share-based payments	21	(42)	(33)
Total operating and administrative expenses		<u>(1,400)</u>	<u>(1,858)</u>
Operating loss	6	(158)	(752)
Finance expense	11	(144)	(190)
Loss before taxation		(302)	(942)
Taxation	12	-	3
Loss for the year and total comprehensive income for the year attributable to shareholders		<u>(302)</u>	<u>(939)</u>
Loss per share:			
Basic and diluted	13	<u>(0.9)p</u>	<u>(5.6)p</u>

All amounts relate to continuing operations.

The notes on pages 19 to 44 form part of these financial statements.

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Registered in England and Wales No. 5623736

Statements of financial position

	Note	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Assets					
Non-current assets					
Goodwill	14	844	844	-	-
Intangible assets	15	226	196	-	-
Property, plant and equipment	16	287	415	-	-
Investments	17	-	-	1,158	1,158
Deferred taxation	23	175	175	-	-
		<u>1,532</u>	<u>1,630</u>	<u>1,158</u>	<u>1,158</u>
Current assets					
Trade and other receivables	18	460	468	1,677	836
Cash and cash equivalents	19	5	400	1	565
		<u>465</u>	<u>868</u>	<u>1,678</u>	<u>1,401</u>
Total assets		<u>1,997</u>	<u>2,498</u>	<u>2,836</u>	<u>2,559</u>
Equity and liabilities					
Capital and reserves attributable to equity holders of the parent					
Share capital	20	357	319	357	319
Share premium		2,706	2,404	2,706	2,404
Merger reserve		662	662	-	-
Retained deficit		(2,475)	(2,215)	(397)	(323)
Total equity		<u>1,250</u>	<u>1,170</u>	<u>2,666</u>	<u>2,400</u>
Non-current liabilities					
Interest-bearing loans and borrowings	22	98	94	76	5
Current liabilities					
Interest-bearing loans and borrowings	22	157	162	73	3
Trade and other payables	24	492	1,072	21	151
		<u>649</u>	<u>1,234</u>	<u>94</u>	<u>154</u>
Total equity and liabilities		<u>1,997</u>	<u>2,498</u>	<u>2,836</u>	<u>2,559</u>

The financial statements were approved and authorised for issue by the Board of Directors on 17 December 2010 and signed on its behalf by:

C M A Black, Chief Executive

M A Eve, Finance Director

The notes on pages 19 to 44 form part of these financial statements.

Statements of changes in equity

Group	Share Capital	Share Premium	Merger Reserve	Retained Deficit	Total Equity
	£000	£000	£000	£000	£000
At 1 October 2008	161	1,472	662	(1,309)	986
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	-	(939)	(939)
Total comprehensive income for the year	-	-	-	(939)	(939)
Shares issued in year	158	932	-	-	1,090
Share-based payment recognised in equity (note 21)	-	-	-	33	33
At 1 October 2009	319	2,404	662	(2,215)	1,170
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	-	(302)	(302)
Total comprehensive income for the year	-	-	-	(302)	(302)
Shares issued in year	38	302	-	-	340
Share-based payment recognised in equity (note 21)	-	-	-	42	42
At 30 September 2010	357	2,706	662	(2,475)	1,250
Company	Attributable to equity holders of the Company				
	Share Capital	Share Premium	Retained Deficit	Total Equity	
	£000	£000	£000	£000	
At 1 October 2008	161	1,472	(110)	1,523	
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	(246)	(246)	
Total comprehensive income for the year	-	-	(246)	(246)	
Shares issued in year	158	932	-	1,090	
Share-based payment recognised in equity (note 21)	-	-	33	33	
At 1 October 2009	319	2,404	(323)	2,400	
Comprehensive income					
Loss for the year recognised in profit and loss	-	-	(116)	(116)	
Total comprehensive income for the year	-	-	(116)	(116)	
Shares issued in year	38	302	-	340	
Share-based payment recognised in equity (note 21)	-	-	42	42	
At 30 September 2010	357	2,706	(397)	2,666	

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

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

The notes on pages 19 to 44 form part of these financial statements.

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Statements of cash flows

	Note	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Cash flow from operating activities					
Operating loss before taxation	6	(158)	(752)	(104)	(246)
Adjustments for:					
Depreciation and amortisation	15,16	417	400	-	-
Share-based payments	21	42	33	42	33
Corporation tax paid	12	-	3	-	-
Net cash flow from operating activities before changes in working capital		301	(316)	(62)	(213)
Decrease/(increase) in trade and other receivables		8	65	(841)	(408)
(Decrease)/increase in trade and other payables		(580)	172	(130)	87
Net cash flow generated from operating activities		(271)	(79)	(1,033)	(534)
Investing activities					
Payments for intangible assets	15	(168)	(160)	-	-
Payments for property, plant and equipment	16	(151)	(277)	-	-
Net cash flow from investing activities		(319)	(437)	-	-
Financing activities					
Issue of ordinary shares		340	1,090	340	1,090
Proceeds from lease-finance arrangements		73	239	58	10
Repayment of lease-finance arrangements		(175)	(288)	(18)	(1)
Proceeds from new bank loan		101	-	101	-
Interest paid	11	(144)	(190)	(12)	(1)
Net cash flow from financing activities		195	851	469	1,098
Net (decrease)/increase in cash and cash equivalents in the year		(395)	335	(564)	564
Cash and cash equivalents at the beginning of the year	19	400	65	565	1
Cash and cash equivalents at the end of the year	19	5	400	1	565

The notes on pages 19 to 44 form part of these financial statements.

1 Basis of preparation and significant accounting policies

Nasstar plc (the 'Company') is a company domiciled in the United Kingdom and is quoted on the AIM market of the London Stock Exchange. The consolidated financial statements of the Company for the year ended 30 September 2010 comprise the Company and its subsidiaries (together referred to as the 'Group'). The Group is primarily involved in the provision of hosted software services.

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

The financial statements have been prepared on the assumption that the Group is a going concern. The financial statements show a loss for the period of £302,000 and net current liabilities of £184,000. 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 £116,000 (2009: loss £246,000) in respect of the Company.

The following standards have been applied by the Group from 1 October 2009

- IFRS 8 Operating segments.
- IAS 1 (Revised) Presentation of financial statements.
- IAS 23 (Amendment) Borrowing costs.
- IFRS 2 (Amendment) Share based payments.
- IAS 27 (Amendment) Consolidated and separate financial statements.
- IFRS 7 (Amendment) Financial instruments: Disclosures.
- IAS 27 Consolidated and separate financial statements (revised).
- IFRS 3 Business Combinations (revised).

IFRS 8 Operating Segments - replaced IAS 14 and requires entities whose debt or equity instruments are traded on a public market to adopt the 'management approach' to reporting the financial performance and position of its operating segments. Information to be reported is what management (specifically the chief operating decision maker ('CODM')) uses internally for evaluating performance and deciding how to allocate resources to operating segments. There is no longer a requirement to make disclosure based on primary and secondary reporting formats, nor is there a requirement to distinguish between business and geographical segments.

1 Basis of preparation and significant accounting policies - continued

The following standards have been applied by the Group from 1 October 2009 - continued

Despite these changes, application of the new standard has not significantly impacted the way management reports segmental information. The Group operated in the year in one segment, the provision of software as a service, and in one market, the United Kingdom. The disclosures required by IAS 14 relating to profits, losses, assets and liabilities of the segment are therefore shown by the financial statements as a whole. Financial reports received by the Board are compiled as relating to the single activity of a linked activity based in the United Kingdom.

IAS 1 (Revised) – The revised standard has changed the way the Group's primary financial statements have been presented. The revision required information to be aggregated on the basis of shared characteristics and introduced a 'statement of comprehensive income' to enable readers to analyse changes in an entity's equity resulting from transactions with owners separately from 'non-owner' changes. The revisions included changes in the titles of the primary statements to reflect their function more clearly (for example, the balance sheet is renamed a 'statement of financial position'). The new titles are not mandatory but have been adopted by the Group. Comparative information has been re-presented so that it also conforms to the revised standard.

IAS 23 - The amendment changes the previous version of the standard by removing the option to expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. Such borrowing costs are now required to be included in the cost of the fixed asset or inventory item to which they relate. The amendment has not affected the Group results as the Group has no borrowing costs attributable to qualifying assets.

IFRS 2 – The amendment clarified that vesting conditions are service conditions and performance conditions only, and that other features of a share-based payment are not vesting conditions. It also specified that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The adoption of this amendment has not had any material impact on the Group financial statements as the Group already applied these principles when accounting for share-based payments in the past.

IAS 27 - The amendment introduced a requirement to account for all post-acquisition dividends as income in the parent's own financial statements, irrespective of whether those dividends were received out of pre- or post-acquisition reserves. A related amendment to IFRS 1 permits first-time adopters to recognise in the separate financial statements, at the date of transition, the deemed cost of investments in subsidiaries, jointly-controlled entities and associates at either fair value or the carrying amount under UK GAAP. The amendment to IFRS 1 has not affected the group or the parent separate financial statements as the Group and the parent have already transitioned to IFRS. The IAS 27 amendment has resulted in a change in accounting policy in the parent's individual financial statements. In accordance with the transitional provisions of the amendment this change will be prospectively applied to dividends received from subsidiaries in future years. There have been no dividends received from subsidiaries in the current financial year. There has therefore been no impact on the Group financial statements.

IFRS 7 – The amendment introduced a three-level hierarchy for fair value measurement disclosures and required entities to provide additional disclosures about the relative reliability of those fair value measurements. In addition, the amendment clarified and enhanced liquidity risk disclosure requirements to enable users to better evaluate the nature and extent of liquidity risk arising from financial instruments and how the entity managed that risk. The Group has provided these additional disclosures in the notes to the financial statements.

1 Basis of preparation and significant accounting policies – continued

The following standards have been applied by the Group from 1 October 2009 - continued

IAS 27 (Revised) - The revised standard introduced guidance on accounting for changes in non-controlling interests (currently 'minority interests') where there is no effect on control. The amended IAS 27 states that such transactions should be accounted for as equity transactions, and that any difference between the amount which the non-controlling interests will be adjusted by and the consideration paid or received should be recognised directly in equity. The revised standard also mandates that all earnings and losses of the relevant subsidiaries should be attributed to the parent and the non-controlling interest, in the absence of any explicit agreements to the contrary. The group has no non-controlling interests and there has therefore been no impact on the Group financial statements.

IAS3 (Revised) – There have been some significant changes to IFRS 3 that have impacted on the way that business combinations will be accounted for by the Group. These changes have been accounted for prospectively from 1 October 2009.

The main changes brought about by the revision are:

- The inclusion of an accounting policy option to account for non-controlling interests.
- Amendments to the calculation of goodwill.
- Accounting for acquisitions in stages.
- Requirement to immediately expense acquisition costs.
- Accounting for contingent consideration.
- Recognition and measurement of certain assets and liabilities.

The Group did not undertake any business combinations in the year ended 30 September 2010.

IFRS effective in 2009 but not relevant

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

- IFRS 1 (Amendment) First-time adoption of IFRS.
- IAS 1 and IAS 32 (Amendment) Presentation of financial statements and Financial Instruments: Presentation.
- IAS 39 and IFRS 7 (Amendment) Reclassification of financial instruments IAS 39 and IFRIC 9 (Amendment) Financial instruments: Recognition and measurement, and Reassessment of embedded derivatives.
- IFRIC 13 Customer loyalty programmes.
- IFRIC 15 Agreements for the construction of real estate.
- IFRIC 16 Hedges of a net investment in a foreign operation.

1 Basis of preparation and significant accounting policies - continued

Standards and interpretations issued but not yet applied

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

- Amendment to IFRS1 Additional exemptions for First-time adopters, effective 1 January 2010.
- Amendment to IFRS2 Group Cash-settled Share-based payment transactions, effective 1 January 2010.
- Amendment to IAS32 Classification of rights issues, effective 1 February 2010.
- Improvements to IFRSs, issued May 2010. Not yet endorsed by the EU.
- IFRIC19 Extinguishing Financial Liabilities with Equity Instruments, effective 1 July 2010.
- Amendment to IFRIC14 Prepayment of a Minimum funding Requirement, effective 1 January 2011.
- IAS24 Related Party Transactions (revised) effective 1 November 2011.
- IFRS9 Financial Instruments, issued November 2009. Not yet endorsed by the EU.

Basis of consolidation

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

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

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

Non-controlling interests represent the portion of profit or loss and net assets not held by the Group. Profits and losses attributable to the non-controlling interest are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Losses attributable to the non-controlling interest are allocated to the non-controlling interest prospectively from 1 October 2009.

Merger accounting

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

1 Basis of preparation and significant accounting policies – continued

Business combinations and goodwill

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

Acquisition costs incurred are allocated against share premium where attributable to the cost of raising equity and are otherwise charged directly to the accumulated profit and loss reserve.

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

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

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

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

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

Goodwill arising from business combinations is assessed for impairment annually.

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

1 Basis of preparation and significant accounting policies – continued

Investments in subsidiaries

Fixed asset investments in subsidiary undertakings are shown at cost less provisions for impairment in value. The cost of acquisition for years commencing 1 October 2009 excludes directly attributable professional fees and other expenses incurred in connection with the acquisition which is expensed as incurred. The cost of investments made prior to 1 October 2009 has not been restated.

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.

1 Basis of preparation and significant accounting policies – continued

Property, plant and equipment

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

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

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

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used.

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.

1 Basis of preparation and significant accounting policies – continued

Impairment of non-financial assets - continued

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.

1 Basis of preparation and significant accounting policies – continued

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 statement of comprehensive income.

1 Basis of preparation and significant accounting policies - continued

Leased assets - continued

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

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

Pensions

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

Foreign currency

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

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

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

The Group has no foreign operations.

Taxation

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

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

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.

1 Basis of preparation and significant accounting policies – continued

Taxation - continued

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

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

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:

	2010	2009
	£000	£000
United Kingdom	2,268	1,932
Rest of the World	82	86
Total revenue	2,350	2,018

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, the provision of software as a service, and in one market, the United Kingdom. The disclosures required by IFRS8 Operating Segments 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

	2010	2009
	£000	£000
Operating loss of the Group for the year is stated after charging:		
Amortisation of intangible assets (note 15)	138	117
Depreciation of plant and equipment (note 16)	279	283
Staff costs (note 7)	708	1,010
Auditors' remuneration (note 9)	14	14
Operating lease rentals	31	32

7 Staff numbers and costs:

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

	2010	2009
	Number	Number
Technical	6	7
Sales	2	2
Administration & customer service	5	7
	13	16

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

	2010	2009
	£000	£000
Wages and salaries	599	895
Social security costs	67	82
Share-based payments	42	33
	708	1,010

8 Directors' emoluments

Directors' emoluments for the year were as follows:

	2010	2009
	£000	£000
Salaries and fees	285	318
Payment in lieu of notice	-	70
Pension costs	-	3
Share-based payments	28	27
	313	418

The aggregate of emoluments and amounts receivable under long-term incentive schemes of the highest-paid director was £157,000 (2009: £139,000).

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)

	2010	2009
	£000	£000
Fees payable for the audit of the Group's financial statements	12	12
Fees payable for tax compliance	2	2
	14	14

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10 Exceptional costs

Exceptional costs in 2009 comprised costs of £91,000 incurred by the company relating to a transaction with a third party that was not completed.

11 Finance expense	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Bank interest payable	12	15	4	-
Finance lease interest payable	62	83	8	1
Other finance costs	70	92	-	-
	144	190	12	1

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

12 Taxation	2010 £000	2009 £000
UK Corporation tax		
Current tax on income for the year at 21%	-	-
Adjustment in respect of prior periods	-	(3)
Current tax charge for the year	-	(3)
Deferred taxation		
Deferred taxation current year (see note 23)	-	-
Tax on loss on continuing operations	-	(3)

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:

	2010 £000	2009 £000
Loss before tax	(302)	(942)
Loss on continuing operations multiplied by the standard rate of corporation tax in the UK of 21% (2008: 19%)	(63)	(198)
Expenses not deductible for tax purposes	1	21
Other timing differences	53	83
Loss brought forward/carried forward	9	94
Prior period adjustment	-	(3)
Tax on loss on continuing operations	-	(3)

Factors that may affect the future tax charge

Unrelieved tax losses of approximately £1,802,000 (2009: £1,755,000) 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 £302,000 (2009: loss £939,000) and a weighted average number of shares in issue for the year of 34,185,643 (2009: 16,776,227).

The diluted loss per share in 2010 and 2009 is the same as the basic loss per share as the losses have an anti-dilutive effect.

14 Goodwill

	Group £000
At 30 September 2009 and 30 September 2010	844

15 Intangible assets

Group	Website £000	Computer Software £000	Total £000
Cost			
At 1 October 2008	58	200	258
Additions	10	150	160
At 30 September 2009	68	350	418
Additions	2	166	168
At 30 September 2010	70	516	586
Amortisation			
At 1 October 2008	(22)	(83)	(105)
Amortisation	(33)	(84)	(117)
At 30 September 2009	(55)	(167)	(222)
Amortisation	(13)	(125)	(138)
At 30 September 2010	(68)	(292)	(360)
Net book value			
At 30 September 2010	2	224	226
At 30 September 2009	13	183	196
At 1 October 2008	36	117	153

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16 Property, plant and equipment

Group	Computer equipment £000	Office equipment and fixtures £000	Total £000
Cost			
At 1 October 2008	942	67	1,009
Additions	276	1	277
At 30 September 2009	1,218	68	1,286
Additions	149	2	151
Disposals	(301)	(12)	(313)
At 30 September 2010	1,066	58	1,124
Depreciation			
At 1 October 2008	(554)	(34)	(588)
Charge for the year	(267)	(16)	(283)
At 30 September 2009	(821)	(50)	(871)
Charge for the year	(268)	(11)	(279)
Disposals	301	12	313
At 30 September 2010	(788)	(49)	(837)
Net book value			
At 30 September 2010	278	9	287
At 30 September 2009	397	18	415
At 1 October 2008	388	33	421

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

	Cost £000	Depreciation £000	Net book value £000
At 30 September 2010	648	460	188
At 30 September 2009	803	509	294

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17 Investments

**Shares in
subsidiaries
£000**

Cost

At 30 September 2009 and 30 September 2010

1,158

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 (dormant at year end)	100%

18 Trade and other receivables

	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Trade debtors	290	229	-	-
Amounts owed by Group companies	-	-	1,661	821
Prepayments	87	101	9	3
Other debtors	83	138	7	12
	460	468	1,677	836
Included above are amounts due in more than one year of:	26	75	-	-

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

	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Cash at bank	5	400	1	565

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.

20 Share capital	2010	2009
	Group and	Group and
	Company	Company
	£000	£000
Called up, allotted and fully paid:		
35,733,224 (2009: 31,916,556) ordinary shares of 1p each	357	319

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

On 25 February 2010, the Company issued 3,816,668 ordinary shares of 1p each at a price of 9p each.

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 3,754,500 (2009: 3,104,500) ordinary shares in aggregate to directors and staff under the schemes, representing approximately 10.5% of the issued share capital as at 30 September 2010, as set out below:

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

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	1,050,000	6.0	6	
Cancelled during the year	(135,000)	38.0	30 to 39	
Outstanding at the end of the year	3,104,500	16.8	6 to 39	8.28
Exercisable at the end of the year	1,309,500	16.0	12 to 24	

As at 30 September 2010, outstanding options granted under the share option schemes were as follows:

Date of grant	Exercise period	2010 No.	2009 No.	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	400,000	22
6 May 2008	May 2010 - May 2018	230,000	280,000	39
12 Sep 2008	Sep 2010 - Sep 2018	465,000	465,000	30
25 Sep 2009	Sep 2011 - Sep 2019	1,050,000	1,050,000	6
22 Dec 2009	Dec 2011 - Dec 2019	700,000	-	10
20 Dec 2005	See below	52,000	52,000	12
		3,754,500	3,104,500	

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. On 13 December 2010, W.H. Ireland advised the company that they would not be exercising their option.

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

	2010	2009
Weighted average share price in pence	18.8	20.7
Weighted average exercise price in pence	18.8	20.7
Expected volatility	45%	27%
Expected life in years	3.5	3.5
Risk-free rate	4.4%	4.4%
Expected dividends	None	None
Fair value of options granted	3p	2p
	Group and Company 2010 £000	Group and Company 2009 £000
The charge to profit and loss for the year	42	33

Expected volatility was determined by calculating the volatility in the share price over the 12 months to 30 September 2010 and for options granted in the year to 30 September 2010.

22 Interest-bearing loans and borrowings

Non-current

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Bank borrowings	64	-	64	-
Lease finance obligations	34	94	12	5
	98	94	76	5

Current

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Bank borrowings	37	-	37	-
Lease finance obligations	120	162	36	3
	157	162	73	3

The fair-value of interest-bearing borrowings is shown in note 25.

Effective interest rates and repricing analysis

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

Group	Effective interest rate	Total	Current	1-2 years	2-5 years
		2010 £000	2010 £000	2010 £000	2010 £000
Cash at bank and other deposits	0.0%	5	5	-	-
Lease finance facilities	12.21%	224	152	72	-
		2009 £000	2009 £000	2009 £000	2009 £000
Cash at bank and other deposits	1.0%	400	400	-	-
Lease finance facilities	11.25%	360	224	136	-
Company	Effective interest rate	Total	Current	1-2 Years	2-5 years
		2010 £000	2010 £000	2010 £000	2010 £000
Cash at bank and other deposits	0.0%	1	1	-	-
Lease finance facilities	14.69%	52	23	29	-
		2009 £000	2009 £000	2009 £000	2009 £000
Cash at bank and other deposits	1.0%	565	565	-	-
Lease finance facilities	10.93%	11	4	7	-

23 Deferred tax

Deferred tax assets and liabilities are attributable to the following:

	Group 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £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 2010 £000	Group 2009 £000	Company 2010 £000	Company 2009 £000
Tax losses	212	212	55	55
Other timing differences	28	28	-	-
Accelerated capital allowances	51	51	-	-
	291	291	55	55

The Group has unrecognised tax losses of approximately £1.8m (2009: £1.8m).

24 Trade and other payables

	2010 Group £000	2009 Group £000	2010 Company £000	2009 Company £000
Trade payables	164	386	7	118
Other tax and social security	136	93	-	-
Other creditors	11	233	3	9
Accruals and deferred income	181	360	11	24
	492	1,072	21	151

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

25 Financial instruments

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

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

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

Principal financial instruments

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

Group	2010 £000	2009 £000
Trade receivables	290	229
Other receivables	170	239
Cash and cash equivalents	5	400
Trade and other payables	(175)	(619)
Interest-bearing loans and borrowings	(255)	(256)
Company	2010 £000	2009 £000
Other receivables	1,677	836
Cash and cash equivalents	1	565
Trade and other payables	(21)	(151)
Interest-bearing loans and borrowings	(149)	(8)

General objectives, policies and processes

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

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

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

Interest rate table

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

	Change in rate	2010 £	Change in rate	2009 £
Sterling	- 0.5%	1,277	- 0.5%	1,279
	- 1.0%	2,555	- 1.0%	2,558
	- 1.5%	3,832	- 1.5%	3,836
Sterling	+ 0.5%	(1,277)	+ 0.5%	(1,279)
	+ 1.0%	(2,555)	+ 1.0%	(2,558)
	+ 1.5%	(3,832)	+ 1.5%	(3,836)

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Fair value of financial liabilities	2010	2009
	£000	£000
Obligations under lease finance arrangements	255	256
Trade and other payables	175	619
	430	875

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.

26 Operating lease commitments	2010	2009	2010	2009
	Group	Group	Company	Company
	£000	£000	£000	£000
Expiry date:				
Within one year	25	32	-	-
Between one and two years	26	-	-	-
Between two and five years	78	-	-	-
	129	32	-	-

Operating lease obligations comprise property rentals.

27 Post-balance sheet events

There are no significant post-balance sheet events arising since 30 September 2010.

28 Capital commitments

There were no capital commitments as at 30 September 2010.

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 2010 £000	Share- based payments 2010 £000	Total 2010 £000	Salary and fees 2009 £000	Payment in lieu of notice 2010 £000	Pension costs 2009 £000	Share- based payments 2009 £000	Total 2009 £000
Lord Daresbury	50	6	56	40	-	-	7	47
C M A Black	140	17	157	125	-	-	14	139
D P Greef	70	5	75	43	-	-	6	49
M A Eve	25	-	25	37	-	-	-	37
K L Bird (resigned 17 July 2009)	-	-	-	61	70	3	-	134
R P Francis (resigned 17 July 2009)	-	-	-	12	-	-	-	12
	285	28	313	318	70	3	27	418

M A Eve's remuneration is paid to DFM Limited (trading as FD Solutions), of which he is an employee. At 30 September 2010 £nil (2009: £21,798) was outstanding to FD Solutions.

On 15 December 2009, Nasstar (UK) Limited entered into a third 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 £15,000 (2009: £43,000) on arms-length business terms under lease finance.