



Nasstar plc

Annual Report & Financial Statements For the year ended 30 September 2007

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Highlights

- Turnover doubled to £1.19m (2006: £0.56m)
- Reduction in loss for the period: EBITDA reduced to (£0.27) [2006: (£0.42)]
- Fivefold increase in subscribers of hosted exchange to 6,000 (2006: 1,158)
- £500,000 fund raising in December 2006 for the acquisition of Network Support International Limited trading as Virtual Email (“Virtual Email”)
- Successful integration of Virtual Email
- Operations streamlined for scalability

Chairman’s Statement

During the period Nasstar has achieved a significant increase in subscribers for the hosted exchange email service, generating the increase in turnover. In the last quarter, in addition to the continuing growth of the hosted exchange service, the sales team began to sell our hosted desktop service. Whilst hosted exchange enables users to access their email from anywhere, hosted desktop extends this approach and enables subscribers to access their desktop, files and applications using the internet. This service provides a viable alternative to traditional on-premise computing, enabling users to do all of their computing in the internet cloud rather than on a local computer. The response to our hosted desktop service has been extremely positive with contract wins for this service including easyGroup. Sales have continued to grow in the post balance sheet period and the sales pipeline gives the Board confidence in the Group’s future prospects. The Board is of the view that the Group’s hosted desktop service, also known as cloud computing, provides the most exciting opportunity for future growth and profitability. The Board believe that cloud computing is a fast growing market and that Nasstar has early mover advantage that it aims to capitalise on during the current and future periods.

The Directors are excited about the future and are very confident about the prospects of the Group.

The Lord Daresbury
Chairman
5 December 2007

Directors and Advisers

| | | |
|-------------------------------------|--|---|
| Directors | The Lord Daresbury C M A Black K L Bird D P Greef S I Johnston A R Malkin | Non-executive Chairman Chief Executive Sales Director Non-executive Director Technical Director Finance Director |
| Secretary | A R Malkin | |
| Company Number | 5623736 | |
| Registered Office | 14 - 18 Old Street London EC1V 9BH | |
| Nominated Adviser and Broker | W H Ireland Limited 88 Colmore Hill Birmingham B3 2BB | |
| Registrars | Neville Registrars Limited Neville House, 18 Laurel Lane Halesowen B63 3DA | |
| Independent Auditors | Gerald Edelman 25 Harley Street London W1G 9BR | |
| Solicitors to the Company | Marriott Harrison Staple Court 11 Staple Inn Buildings London WC1V 7QH | |
| Principal Bankers | Barclays Bank plc PO Box 35721 Level 27, 1 Churchill Place London BX3 2BB | |

Business Review

Introduction

Nasstar provides computing services on the internet enabling users to do all their computing online from anywhere - including access to their desktop, files and applications such as email and Microsoft Office Professional - through a web browser. This means all your computing is done via the internet rather than on a locally installed computer. This model of delivering computing via the internet rather than from a local PC is known as 'cloud computing' or 'Software as a Service'.

Nasstar's philosophy for future growth has emerged with force during the period. The philosophy is to keep it simple and scalable, just do one thing - cloud computing - and focus on doing it better than anyone else.

The Market

To understand the market in which Nasstar operates it is necessary to set out a brief overview of the trends of the internet. When the internet started, businesses had computing systems on-premise. Data and software was installed locally on PCs under the desk. The commercial internet started and web hosting companies were set up to register domain names, host web sites and provide POP3 email. A large number of web hosting companies were created and in due course between 1999 and 2001 the web hosting market was consolidated, resulting in a small number of large hosting companies dominating the market. The second wave of the internet saw the emergence of hosted email services with companies starting to outsource their email service to benefit from anti-virus and junk mail services that protected business email from the rapidly growing amount of viruses and spam. Nasstar launched its hosted email service in January 2003 and launched Hosted Exchange in June 2004. Hosted exchange has become the principle business email service and a very competitive market that will in due course inevitably see consolidation. The third wave of the internet is happening now, and this is dominated by two main services – voice over IP and software as a service. This third wave sees a dramatic change in make-up of information technology because it enables a big change to happen in the way businesses purchase core information technology services. Neither web hosting or hosted email services led to a dramatic change in the make-up of IT because businesses still needed to host their business software (such as Microsoft Office and accounting software) on-premise along with their data. However, the third wave of the internet enables businesses to move all their computing needs including software and data to a hosted service. Businesses need internet access, screens, keyboards, printers and 'thin clients' but other than that all applications and all data can be hosted and accessed over the internet, resulting in cloud computing and a radical change in the landscape of IT.

The market for third generation internet - cloud computing - is developing at a fast rate. Last year Google launched Google Apps which makes certain applications accessible on the internet including Docs, the Google version of Microsoft Word, and Spreadsheets, the Google version of Microsoft Excel. The fact that Google regard Google Apps – "in the computational cloud" to use their phrase – is evidence of the shift that is occurring from on-premise local installed computing to computing via the internet. Recently announced was the launch of 'Live Documents' which has been launched by Sabeer Bhatia, the founder of Hotmail (the web based email service purchased by Microsoft). It is believed that Live Documents will be similar to Google Apps in providing cloud computing through internet based applications. The fact that companies such as Google see the future of computing as being 'in the cloud' endorses the vision Nasstar have of providing these services as a radical alternative to local installed 'on-premise' services. Nasstar launched its first version of hosted desktop - cloud computing - in 2004 and has subsequently revised and improved the service. The service uses Microsoft Office and Windows desktop as its foundations, and in the view of the Directors this approach is the solution most businesses would prefer to adopt because Microsoft Office and desktop are technologies businesses know and use. Nasstar delivers them in the cloud rather than on a PC in an office, and that is the dramatic change in approach. Nasstar's service also benefits from being able to host non-Microsoft applications such as Sage or Quickbooks accounting software, Adobe software and other key third party applications. As a result Nasstar's service can provide a simple one-login service for a business to access all its files and applications (contrast Google which only allows you to use a few Google applications).

Benefits of cloud computing

The benefits of cloud computing include:

- * Anywhere access to your computer desktop, files, company data and software
- * Enables flexible working, with employees able to use their computer over the internet from home, work or abroad
- * Services are paid for by monthly subscription, and subscription is as simple as subscribing for a TV service or mobile phone account;
- * Payment is by Direct Debit
- * Per user per month subscriptions mean predictable costs
- * No up-front capital expenditure is required as businesses do not need to purchase their own servers or perpetual software licenses;

Benefits of the business model

- * Providing anywhere anytime access to computing
- * Scalable systems
- * Customers themselves can add more subscribers through the customer portal, thereby spending additional subscriptions with 'zero touch' by the company
- * Services provided are essential business services
- * Recurring revenue
- * Average revenue per customer tends to increase over time
- * Direct debit collection

Operations

The Group has focussed automating a number of processes this year to provide scalability and to ensure that as the business grows certain overheads remain stable and low-cost. The Group's billing system is one key achievement. Historically all invoices were created manually on spreadsheets, printed, posted and then entered into Sage one invoice at a time. This approach was immensely time consuming, taking an increasingly lengthy time to generate the invoices each month as the number of customers grew. Furthermore as the number of invoices grew the time taken to enter the data in to the Group's accounting software grew sequentially. In addition there was the growing cost of printing and postage and most significantly there was the risk of human error in calculating the usage (number of subscribers and storage) for each customer. Clearly this system was not scalable for a fast growing company and so a new automated system was developed in-house. The new billing system that was introduced in March 2007 is automated as follows. For each customer a per user per month fee is agreed for the hosted exchange email service, blackberry and hosted desktop service. The fee for storage of a customer's data is also per an agreed tariff. The billing system then automatically interrogates the live system databases to produce a detailed breakdown of all users and storage. At the end of each month the billing run is done by a one-click process. The system queries all the usage for each customer and generates all the invoices. The invoices display a front page summary of usage and then provide a detailed breakdown of usage, listing all the subscribers and storage being used by the customer and calculating the total cost. During the process the invoices are all created as electronic PDF (Portable Document Format) files and emailed to the billing contact for the customer. All invoices generated are stored and referenced in the billing database ensuring they can be retrieved, reviewed or re-sent in the event of a query. The data from each invoice run is then exported by a simple process and imported in to the Group's accounting software. Currently approximately 600 invoices are generated each month. One of the main benefits of the new billing system is that whether there are 600, 6,000 or 60,000 invoices each month the process remains a simple one-click function that takes seconds to process.

Customer Portal

A key achievement this year, again for scalability, was the introduction of a customer portal that enables customers to securely login and view and manage their services. Prior to the introduction of the customer portal, any customer who wished to add a new mailbox (and therefore increase their spend with the company) had to telephone or email support and wait for the mailbox to be added. The customer portal enables the customer (through appointed authorised administrators) to add mailboxes, re-set passwords, delete or disable users, activate or re-activate blackberry and other management functions. The Company is encouraging customers to use the customer portal as it achieves two fundamental objectives: firstly, the customer has a better experience as they have a level of control over their service and can add the users and manage the functions when they want without having to telephone or email support; secondly it reduces incoming support calls and emails thereby reducing the company's support overhead.

Direct Debit scheme

Nasstar invoices customers at the end of each month for usage in arrears. For scalability and cash flow the Company has implemented a Direct Debit scheme.

Marketing review

During the period the Company has focussed sales primarily on hosted exchange – the entry service to cloud computing. During the last quarter of the period the Company began to channel sales effort on hosted desktop, the full cloud computing service that enables subscribers to access their desktop, files and applications through a web browser on the internet. The Company has appointed a leading global marketing agency to re-design the Company's web site and produce all the necessary marketing materials to communicate effectively the simple proposition that now exists. The new Nasstar web site and marketing materials will be launched in the first quarter of 2008 and be supported by a carefully planned marketing campaign during the next period.

Focus on core activities, keeping it simple

The focus of Nasstar is on keeping it simple and scalable, doing one thing and doing it better than anyone else. This philosophy has focussed resources during the period on scalability and ensuring the core services of hosted exchange, blackberry and hosted desktop are highly redundant. This has involved investment in additional equipment to ensure that these core services can scale quickly with redundancy to ensure service continuity at all times.

Nasstar's computing services

Nasstar is promoting its computing services as a simple subscription model, similar to the approach taken by satellite or cable television companies. The subscriptions available are:

Full subscription: this provides a subscriber with access in the internet cloud to their 'virtual' computer, desktop, files, company data and business applications including Microsoft Office software.

Basic subscription: this is the Hosted Exchange service, the entry to cloud computing. This enables a subscriber to access their email from anywhere using either Outlook, through a web browser or on a mobile device such as a BlackBerry.

Virtual Email

Network Support International Limited trading as Virtual Email ("Virtual Email") was acquired in December 2006. The invoicing, accounting and staffing were quickly integrated into Nasstar in January 2007. Although all invoices from January 2007 have been issued as Nasstar invoices, approximately one-third of the Group's turnover for the period – circa £400,000 – was the result of the Virtual Email acquisition.

Principal risks and uncertainties

In accordance with the guidelines for this Business Review, the principal risks and uncertainties will be considered under the following headings: strategic, commercial, operational and financial risk and reputational risk. Further information on financial instruments and associated risk is set out in note 26 to the financial statements.

Strategic risk

The software as a service model that Nasstar provides involves hosting software made by third parties, primarily Microsoft. A strategic risk is that software vendors decide to host their own software and seek to cut out service providers such as Nasstar. The Directors consider this to be an extremely remote risk to Nasstar's service. The Directors' reasoning – based on the service Nasstar provides – is that businesses which use software as a service invariably need to use the software of more than one vendor, for example they may need to access Microsoft Office, Sage Accounts and Adobe Acrobat software. In addition, most users of Nasstar Desktop have their own industry specific or bespoke software that is hosted as part of the service. Even assuming software vendors offer an increasing amount of their software through a web browser, it is submitted that the end user would still have to log-in and log-out of multiple different systems to use the different vendors' software. In the Directors' opinion this would provide a cumbersome and inefficient desktop environment. Nasstar's cloud computing solution provides a single login point of access to a virtual computer with full desktop and browser and therefore acts as a gateway for users to access all of their hosted software including software from different vendors.

Competition

Competition exists in the market and the Directors believe that the hosted applications market is fast growing. Recently Google announced that it would be introducing 'Docs and Spreadsheets' into its Google Apps system as part of a planned growth in the hosted applications market. The fact that Google wishes to grow in the hosted applications market adds significant weight to the arguments put forward by Nasstar that hosted applications (also referred to as software as a service) is the future of software delivery. Nasstar's software as a service is a markedly different way of delivering software in comparison to the traditional model of local based server and PC installation. Potential customers need educating in the difference and the fact that Google is expanding in the hosted applications market helps make potential customers aware that what Nasstar is doing is the way of the future.

In terms of competition, the market for hosted Exchange is competitive. The Directors are confident that Nasstar is establishing itself as one of the market leaders and that we are able to compete effectively with the other providers of hosted Exchange.

Operational and financial risk

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

Financial review and key performance indicators

Turnover increased by 115% to £1,193,000 in line with the Directors' expectations. The increase in turnover was achieved at a time when the Company's primary focus was the creation of a scalable technical infrastructure. Operating expenses increased by 42% reflecting investment in operating capability and the additional costs of being a quoted company. Loss per share decreased by 33% to 3.4p. Full information is set out in the Consolidated Profit and Loss Account on page 12.

Employees

During the period the Company employed a sales team of four made up of Kevin Bird, one of the Company's Directors responsible for management of the sales team, and three sales staff. The Company has implemented a commission based payment structure for sales staff to ensure they are incentivised to maximise selling opportunities and fully rewarded for their achievements.

The Company has faced challenges in respect of technical staffing with a number of new staff and a number of leavers. One challenge the Company has faced is recruiting good first line support personnel. This has proved extremely difficult and as a result the Company decided during the period to outsource first line support, including the 24 hour support telephone, to a third party company. The benefit of this approach is that as the number of subscribers grows the Company does not have to struggle to recruit new first line engineers as these are employed by the company to which Nasstar outsources the service. Another key factor in respect of first line support is the launch of the customer portal which was launched in July 2007. This enables customers to manage many aspects of the service and it is anticipated that this will gradually reduce the volume of in-bound support requests.

The Company has recruited a support manager who is responsible for managing the relationship with the outsourced first line support company and ensuring customer support requests are processed efficiently and in accordance with the Company's Service Level Agreement.

In respect of the accounts department the Company engages the services of a part-time book-keeper and Finance Director and a full-time credit controller. As a result of the direct debit scheme it is anticipated that no additional resource will be required during the next period for credit control despite the rapid increase in customers, this is because new customers are required to pay by direct debit.

In terms of the Finance Director the Company wishes to thank Richard Malkin for his work over the last 2 years and welcomes Tony Eve as our new Finance Director. Richard is stepping down to concentrate on his full-time role as Finance Director at Hoodless Brennan plc.

Directors' Report

For the year ended 30 September 2007

The Directors present their annual report on the affairs of the group, together with the financial statements and auditor's report, for the year ended 30 September 2007.

Principal activities, review of the business and future developments

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

The review of the group's activities and performance for the year and its prospects for 2008 is contained in the Chairman's Statement on page 2 and the Business Review on page 4.

Results and dividends

The results for the year are set out on page 12. No dividend has been paid during the year.

Directors

The following directors have held office since 1 October 2006:

K L Bird (appointed 1 December 2006)
 C M A Black
 Lord Daresbury
 D P Greef
 S I Johnston
 A R Malkin

In accordance with the Articles of Association of the company, K L Bird, having been appointed during the year, and Lord Daresbury, who retires by rotation, will offer themselves for re-election at the Annual General Meeting.

Directors' interests

The directors who held office at 30 September 2007 had the following interests in the shares of group undertakings:

| | Ordinary shares of 1p each in Nasstar plc | | |
|----------------|---|-------------------|--|
| | Shareholding % | 30 September 2007 | 1 October 2006 or subsequent date of appointment |
| K L Bird | 8.34% | 1,206,622 | 1,198,622 |
| C M A Black | 45.83% | 6,632,500 | 6,521,666 |
| Lord Daresbury | 14.61% | 2,114,524 | 1,161,667 |
| D P Greef | 5.58% | 807,381 | 746,667 |
| S I Johnston | 0.37% | 53,571 | 50,000 |
| A R Malkin | 0.27% | 38,690 | 20,833 |

Directors' share options

During the year the following options over the ordinary shares have been granted to the directors:

| Director share options | Option price (p) | Number granted | Date of grant |
|------------------------|------------------|----------------|---------------|
| C M A Black | 22 | 200,000 | 27 April 2007 |
| Lord Daresbury | 22 | 100,000 | 27 April 2007 |
| D P Greef | 22 | 100,000 | 27 April 2007 |
| S I Johnston | 22 | 50,000 | 27 April 2007 |

No options were exercised during the year.

Further details on share options are given in note 19 to the financial statements.

Substantial shareholdings

Other than the directors' interests shown above, the share register shows the following substantial interests as at 30 November 2007:

| | Ordinary shares of 1p each | |
|--|----------------------------|------------------|
| | Shareholding % | 30 November 2007 |
| Pershing Keen Nominees Limited (601) Des:GWCLT | 5.04% | 729,167 |
| HSBC Global Custody Nominee (UK) Limited (BH01) Des:968814 | 6.91% | 1,000,512 |

Corporate Governance

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

Board Meetings

The Board meets at least four times per year excluding the AGM. The Chief Executive Officer maintains frequent communication with the Chairman and non-executive Director to ensure 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 in the Directors' Report.

The Audit Committee

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

The Remuneration Committee

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

Report of the remuneration committee

During the year in review the following changes were made to Directors pay. Kevin Bird was appointed to the Board as a Director with an annual salary of £80,000 commencing on 1 January 2007. Shannon Johnston's annual salary was increased from £45,000 to £55,000 with effect from 1 January 2007 and increased to £56,000 with effect from 1 July 2007. The Remuneration Committee also approved an increase in the salary of Charles Black from £85,000 to £100,000. However, Charles Black decided not to take the salary increase until 1 October 2007. Share options were granted to Directors as set out above.

Supplier payment policy

The company's policy, which is also applied by the group, is to ensure that, in the absence of dispute, all suppliers are dealt with in accordance with its standard payment practice whereby all outstanding trade accounts are settled within the term agreed with the supplier at the time of the supply or otherwise 30 days from receipt of the relevant invoice. Trade creditor days based on creditors at 30 September 2007 were 103 days (2006: 65 days).

Directors' indemnities

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

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' responsibilities

The directors are responsible for preparing the Annual Report including the financial statements. The directors have chosen to prepare the financial statements for the company and the group in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP).

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view, in accordance with UK GAAP, of the state of affairs of the company and of the group and of the profit or loss of the group for that period and comply with UK GAAP and the Companies Act 2006. In preparing those 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 applicable accounting standards have been followed,; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Approved by the Board and signed on its behalf by:

A R Malkin
Director
5 December 2007

Registered office:
14-18 Old Street
London EC1 9BH

Independent Auditor's Report

to the members of Nasstar plc

We have audited the financial statements of Nasstar plc for the year ended 30 September 2007 which comprise the balance sheet and the related notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with the relevant financial reporting framework and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's and the Group's affairs as at 30 September 2007 and of the result of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985;
- the information in the Directors' Report is consistent with the financial statements.

Gerald Edelman

Chartered Accountants & Registered Auditors
London
5 December 2007

Consolidated Profit and Loss Account

For the year ended 30 September 2007

| | Notes | 2007 £000 | 2006 £000 |
|---|-------|--------------|--------------|
| Turnover | 2 | 1,193 | 556 |
| Operating expenses | | (1,587) | (1,119) |
| Operating loss | 3 | (394) | (563) |
| Interest payable and similar charges | 4 | (88) | (66) |
| Loss on ordinary activities before taxation | | (482) | (629) |
| Tax on loss on ordinary activities | 7 | 6 | 104 |
| Loss for the year | 20 | (476) | (525) |
| Loss per share | | | |
| Basic and diluted | 9 | (3.4)p | (5.1)p |

All amounts derive from continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

Balance Sheets

As at 30 September 2007

| | Notes | Group | | Company | |
|--|-------|--------------|--------------|--------------|--------------|
| | | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Fixed assets | | | | | |
| Intangible assets | 11 | 844 | - | - | - |
| Tangible assets | 12 | 119 | 140 | - | - |
| Investments | 13 | - | - | 1,158 | 156 |
| | | <u>963</u> | <u>140</u> | <u>1,158</u> | <u>156</u> |
| Current assets | | | | | |
| Debtors: due within one year | 15 | 489 | 321 | 157 | 10 |
| Cash at bank and in hand | | 58 | 48 | - | - |
| | | <u>547</u> | <u>369</u> | <u>157</u> | <u>10</u> |
| Creditors: amounts falling due within one year | 16 | <u>(881)</u> | <u>(453)</u> | <u>(149)</u> | <u>-</u> |
| Net current (liabilities)/assets | | <u>(334)</u> | <u>(84)</u> | <u>8</u> | <u>10</u> |
| Total assets less current liabilities | | <u>629</u> | <u>56</u> | <u>1,166</u> | <u>166</u> |
| Creditors: amounts falling due after more than one year | 17 | <u>-</u> | <u>(20)</u> | <u>-</u> | <u>-</u> |
| | | <u>629</u> | <u>36</u> | <u>1,166</u> | <u>166</u> |
| Capital and reserves | | | | | |
| Called up share capital | 19 | 145 | 109 | 145 | 109 |
| Share premium account | 20 | 1,031 | 67 | 1,031 | 67 |
| Merger reserve | 20 | 662 | 662 | - | - |
| Profit and loss account | 20 | (1,209) | (802) | (10) | (10) |
| Shareholders' funds – equity interests | 21 | <u>629</u> | <u>36</u> | <u>1,166</u> | <u>166</u> |

The financial statements were approved by the Board of Directors on 5 December 2007, and signed on its behalf by:

C M A Black
Chief Executive

A R Malkin
Finance Director

Consolidated Cash Flow Statement

For the year ended 30 September 2007

| | Notes | 2007 £000 | 2007 £000 | 2006 £000 | 2006 £000 |
|--|-------|--------------|--------------|--------------|--------------|
| Net cash outflow from operating activities | 22 | | (69) | | (477) |
| Returns on investments and servicing of finance | | | | | |
| Interest paid on bank loans and overdrafts | | (7) | | - | |
| Interest on hire purchase contracts | | (12) | | (12) | |
| Other finance costs | | (69) | | (54) | |
| | | | (88) | | (66) |
| Net cash outflow from returns on investments and servicing of finance | | | | | |
| Taxation | | | | | |
| UK corporation tax paid | | (25) | | - | |
| Net cash outflow from taxation | | | (25) | | - |
| Capital expenditure | | | | | |
| Payments to acquire tangible fixed assets | | (66) | | (66) | |
| Disposal of tangible fixed assets | | 13 | | - | |
| Net cash outflow from capital expenditure | | | (53) | | (66) |
| Acquisitions and disposals | | | | | |
| Purchase of subsidiary undertaking | | (778) | | - | |
| Net cash outflow from acquisitions and disposals | | | (778) | | - |
| Net cash outflow before management of liquid resources and financing | | | (1,013) | | (609) |
| Financing | | | | | |
| Issue of ordinary share capital | | 1,000 | | 624 | |
| Capital element of hire purchase contracts | | (27) | | (4) | |
| Net cash inflow from financing | | | 973 | | 620 |
| (Decrease)/increase in cash in the year | 23 | | (40) | | 11 |

Notes to the Consolidated Financial Statements

For the year ended 30 September 2007

1 Accounting policies

1.1 Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards, which have been applied consistently. 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 £476,000 and net current liabilities of £334,000. 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.

1.2 Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the company and its subsidiary undertakings made up to 30 September 2007.

Acquisitions of subsidiaries are dealt with by the acquisition method of accounting except for those qualifying as group reconstructions where merger accounting is permitted.

1.3 Turnover

Turnover represents amounts receivable for services net of VAT and trade discounts. Revenue from service contracts is accrued evenly over the period of the contract except that set-up revenues are recognised over the length of the set-up period on a percentage to completion basis. Some contracts are financed by a process of invoice discounting with a finance house and in such cases an appropriate proportion of the funds received are carried forward to future periods in which the income is recognised.

1.4 Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred. Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

1.5 Goodwill

The directors have undertaken an impairment review of goodwill at 30 September 2007 in accordance with the provisions of Financial Reporting Standard ('FRS') 10, which shows that the capitalised value of the cash flows derived from future income streams is greater than the carrying value shown in the Group's consolidated balance sheet at 30 September 2007. Impairment reviews will continue to be carried out at the end of each reporting period.

1.6 Deferred consideration

The terms of an acquisition may provide that part of the total value of the total of the purchase consideration, which may be payable at a future date, depends on uncertain future events such as the future performance of the acquired company. Where it is not possible to estimate amounts payable with any degree of certainty, the amounts recognised in the financial statements are those that are reasonably expected to be paid as at the balance sheet date.

1.7 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

| | |
|---|---|
| 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 |

1.8 Leasing

Rentals payable under operating leases are charged against income on a straight line basis over the lease term

1.9 Deferred taxation

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Recognition of the deferred tax asset is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. The deferred tax balance has not been discounted.

1.10 Share-based payments

The group operates executive and employee share schemes. For all grants of share options, the fair value as at the date of grant is calculated using an option pricing model and the corresponding expense is recognised over the vesting period. The expense is recognised as a staff cost and the associated credit entry is made against equity.

1.11 Pension costs

The group operates a defined contribution pensions scheme, the costs of which are charged to the profit and loss account as incurred..

1.12 Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

2 Turnover

The total turnover of the group for the year has been derived from its principal activity wholly undertaken in the United Kingdom.

3 Operating loss

| | 2007 | 2006 |
|--|-------------------|-------------------|
| | £000 | £000 |
| Operating loss is stated after charging: | | |
| Depreciation of tangible fixed assets – owned assets | 95 | 64 |
| – leased assets | 27 | 26 |
| Operating lease rentals | 121 | 86 |
| Auditors' remuneration – audit services | 15 | 10 |
| – non-audit services – due diligence | 7 | 10 |
| – tax compliance | 2 | 2 |
| | <u> </u> | <u> </u> |

4 Interest payable and similar charges

| | 2007 | 2006 |
|------------------------------|-------------------|-------------------|
| | £000 | £000 |
| On bank loans and overdrafts | 7 | - |
| Hire purchase interest | 12 | 12 |
| Other finance costs | 69 | 54 |
| | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> |

5 Employees

Number of employees

The average monthly number of employees (including directors) during the year was:

| | 2007 | 2006 |
|---------------------------------|-------------------|-------------------|
| | Number | Number |
| Technical, sales and management | 15 | 8 |
| | <u> </u> | <u> </u> |

Employment costs

| | 2007 | 2006 |
|-----------------------|-------------------|-------------------|
| | £000 | £000 |
| Wages and salaries | 569 | 371 |
| Social security costs | 58 | 30 |
| Other pension costs | 4 | - |
| | <u> </u> | <u> </u> |
| | <u> </u> | <u> </u> |

6 Directors' emoluments

| | 2007 | 2006 |
|---|-------------------|-------------------|
| | £000 | £000 |
| Emoluments for qualifying services | 257 | 244 |
| | <u> </u> | <u> </u> |
| Fees to third parties | - | 8 |
| | <u> </u> | <u> </u> |
| Emoluments disclosed above include the following amounts paid to the highest paid director: | | |
| Emoluments for qualifying services | 85 | 124 |
| | <u> </u> | <u> </u> |

Fees paid to third parties comprise amounts paid to Eclipse Information Systems, under an agreement to provide the

group with the services of Mr. S. Johnston from appointment to 31 December 2005. From 1 January 2006 Mr. Johnston provided his services directly to the company and his remuneration is included within emoluments above.

| 7 Taxation | 2007 £000 | 2006 £000 |
|--|----------------------|----------------------|
| Domestic current year tax | | |
| U.K. corporation tax | 1 | - |
| | <hr/> | <hr/> |
| Current tax charge | 1 | - |
| Deferred tax | | |
| Deferred tax credit | (7) | (104) |
| | <hr/> | <hr/> |
| | (6) | (104) |
| | <hr/> <hr/> | <hr/> <hr/> |
| Factors affecting the tax charge for the year | | |
| Loss on ordinary activities before taxation | (482) | (629) |
| | <hr/> <hr/> | <hr/> <hr/> |
| Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19% (2006: 19%) | (92) | (120) |
| | <hr/> | <hr/> |
| Effects of: | | |
| Non deductible expenses | 31 | 4 |
| Depreciation add back | 23 | 17 |
| Capital allowances | (10) | (10) |
| Losses carried forward | 49 | 109 |
| | <hr/> | <hr/> |
| | 93 | 120 |
| | <hr/> | <hr/> |
| Current tax charge | 1 | - |
| | <hr/> <hr/> | <hr/> <hr/> |

There is no provision for UK corporation tax due tax losses carried forward, subject to agreement with HM Revenue & Customs.

8 Loss attributable to the company

The loss for the financial year dealt with in the financial statements of the parent company was £69,000 (2006 - £53,000). As permitted by section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the parent company.

9 Earnings per share

The calculation of the basic loss per share is based on the loss attributable to ordinary equity shareholders of £476,000 (2006: loss £525,000) divided by the weighted average of 13,876,190 (2006: 10,367,361) ordinary shares in issue.

Due to the loss incurred in the year, there is no dilution effect from the issued share options.

10 Share-based payments

Share options have been granted as set out in note 19.

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

| | 2007 | 2006 |
|--|-------------|-------------|
| Weighted average share price in pence | 22 | 24 |
| Weighted average exercise price in pence | 22 | 13.3 |
| Expected volatility | 20% | 18% |
| Expected life in years | 3.5 | 3.5 |
| Risk free rate | 4.4% | 4.4% |
| Expected dividends | None | None |

Expected volatility was determined by calculating the volatility in the share price over the 12 months to 30 April 2007.

| 11 Intangible fixed assets - Goodwill Group | Total |
|---|-------|
| | £000 |
| Cost | |
| At 1 October 2006 | - |
| Additions | 844 |
| At 30 September 2007 | 844 |
| Amortisation | |
| At 1 October 2006 | - |
| Charge for the year | - |
| At 30 September 2007 | - |
| Net book value | |
| At 30 September 2007 | 844 |
| At 30 September 2006 | - |

| 12 Tangible fixed assets Group | Computer equipment & software development | Fixtures, & fittings | Office equipment | Total |
|---------------------------------------|---|----------------------|------------------|-------|
| | £000 | £000 | £000 | £000 |
| Cost | | | | |
| At 1 October 2006 | 334 | 12 | 12 | 358 |
| Additions | 43 | 13 | 10 | 66 |
| Acquisition of subsidiary undertaking | 34 | 1 | 13 | 48 |
| Disposals | - | - | (13) | (13) |
| At 30 September 2007 | 411 | 26 | 22 | 459 |
| Depreciation | | | | |
| At 1 October 2006 | 206 | 6 | 6 | 218 |
| Charge for the year | 117 | 2 | 3 | 122 |
| At 30 September 2007 | 323 | 8 | 9 | 340 |
| Net book value | | | | |
| At 30 September 2007 | 88 | 18 | 13 | 119 |
| At 30 September 2006 | 128 | 6 | 6 | 140 |

Included above are assets held under finance leases or hire purchase contracts as follows:

| | | | | |
|-----------------------|----|---|---|----|
| Net book value | | | | |
| At 30 September 2007 | 27 | - | - | 27 |
| At 30 September 2006 | 54 | - | - | 54 |

| | |
|-----------------------------------|--|
| 13 Fixed asset investments | Shares in group undertakings £000 |
| Company | |
| Cost | |
| At 1 October 2006 | 156 |
| Additions | 1,002 |
| | 1,158 |
| At 30 September 2007 | 1,158 |

In the opinion of the directors, the aggregate value of the company's investment in subsidiary undertakings is not less than the amount included in the balance sheet.

At 30 September 2007 Nasstar plc owned 100% of the issued share capital in both Nasstar (UK) Limited and Network Support International Limited, companies incorporated in England & Wales whose activities were as Application Service Providers.

14 Acquisition of subsidiary undertaking

On 1 December 2006 the company acquired 100% of the issued share capital of Network Support International Limited for consideration comprising £250,000 in cash and the issue of 1,785,714 ordinary shares of 1p each in the company. The assets acquired are set out below. There was no material difference between the book and fair values of the assets and liabilities acquired.

| | |
|-----------------------------------|-------------|
| | £000 |
| Tangible fixed assets | 48 |
| Debtors | 93 |
| Cash at bank | 15 |
| Creditors | (67) |
| | 89 |
| Net assets | 89 |
| Cash consideration | 250 |
| Deferred consideration | 140 |
| Fair value of shares issued | 500 |
| Acquisition costs | 43 |
| | 933 |
| Fair value of total consideration | 933 |
| Net assets acquired | (89) |
| | 844 |
| Goodwill | 844 |

The fair value of the non-cash consideration used a market price of 28p per share, being the subscription price of shares being issued contemporaneously. The deferred consideration becomes payable on the Group achieving certain sales targets by 30 September 2008, and the amount is included with other creditors falling due within one year.

No indication can be given of the contribution to turnover and operating profit of Network Support International Ltd, which was acquired in the year. This is because the business and assets were integrated into Nasstar (UK) Ltd immediately after acquisition and it is now not possible to identify the separate turnover and results of the acquired business.

The profit after taxation of Network Support International Ltd was £60,000 for the period 1 July 2006 to 1 December 2006 and £91,000 for the year ended 30 June 2006.

| | | | | |
|------------------------------------|--------------|-------------|----------------|-------------|
| 15 Debtors | Group | | Company | |
| | 2007 | 2006 | 2007 | 2006 |
| | £000 | £000 | £000 | £000 |
| Trade debtors | 239 | 72 | - | - |
| Amounts owed by group undertakings | - | - | 154 | - |
| Deferred tax asset (see note 18) | 175 | 175 | - | - |
| Other debtors | 7 | 13 | - | 10 |
| Prepayments and accrued income | 68 | 61 | 3 | - |
| | 489 | 321 | 157 | 10 |
| | 489 | 321 | 157 | 10 |

| 16 Creditors: amounts falling due within one year | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Bank loans and overdrafts | 50 | - | - | - |
| Net obligations under finance leases | 20 | 27 | - | - |
| Trade creditors | 134 | 99 | 8 | - |
| Corporation tax | 1 | - | - | - |
| Other taxation and social security costs | 114 | 36 | - | - |
| Other creditors | 149 | - | 140 | - |
| Accruals and deferred income | 413 | 291 | 1 | - |
| | <u>881</u> | <u>453</u> | <u>149</u> | <u>-</u> |

The bank overdraft facility of £50,000 is secured by a personal guarantee given by Charles Black.

| 17 Creditors: amounts falling due after more than one year | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Net obligations under finance leases | - | 20 | - | - |
| Net obligations under finance leases | | | | |
| Repayable within one year | 29 | 40 | - | - |
| Repayable between one and five years | - | 29 | - | - |
| | <u>29</u> | <u>69</u> | <u>-</u> | <u>-</u> |
| Finance charges and interest allocated to future accounting periods | (9) | (22) | - | - |
| | <u>20</u> | <u>47</u> | <u>-</u> | <u>-</u> |
| Included in liabilities falling due within one year | (20) | (27) | - | - |
| | <u>-</u> | <u>20</u> | <u>-</u> | <u>-</u> |

18 Provisions for liabilities and charges

The deferred tax asset (included in debtors, note 15) is made up as follows:

| | Group £000 | Company £000 |
|--|---------------|-----------------|
| Balance at 1 October 2006 and at 30 September 2007 | <u>175</u> | <u>-</u> |

| | Group | | Company | |
|--------------------------------|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Tax losses available | 169 | 169 | - | - |
| Accelerated capital allowances | (4) | (4) | - | - |
| Other timing differences | 10 | 10 | - | - |
| | <u>175</u> | <u>175</u> | <u>-</u> | <u>-</u> |

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

| | Group | | Company | |
|--------------------------------|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Tax losses available | 69 | - | 9 | - |
| Accelerated capital allowances | (7) | - | - | - |
| Other timing differences | 13 | - | - | - |
| | <u>75</u> | <u>-</u> | <u>9</u> | <u>-</u> |

19 Share capital

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Authorised | | | | |
| 1,000,000,000 Ordinary shares of 1p each | 10,000 | 10,000 | 10,000 | 10,000 |
| Allotted, called up and fully paid | | | | |
| 14,471,428 Ordinary shares of 1p each | 145 | 109 | 145 | 109 |
| Reported as at 1 October 2006 or on incorporation | 109 | 57 | 109 | - |
| Issue of shares | 36 | 52 | 36 | 109 |
| Reported as at 30 September 2007 | 145 | 109 | 145 | - |

During the year the company allotted 1,785,714 ordinary shares with a nominal value of £18,000 in connection with the acquisition of Network Support International Limited and a further 1,785,714 ordinary shares of 1p each were issued at a premium of 27p each.

Share option schemes

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

EMI Options and Unapproved Options (together the "Options") have been granted over 1,594,000 ordinary shares in aggregate to directors and staff under the schemes and representing approximately 11% of the issued share capital as at 30 September 2007, as set out below. There are no performance conditions required for the exercise of the options in respect of the grants referred to in this paragraph.

| | No of shares under option | Subscription price per share | Exercise period |
|---------------------------------|---------------------------|------------------------------|------------------------------|
| Unapproved options to directors | 1,020,000 | 12 | December 2007 –December 2015 |
| Unapproved options to directors | 400,000 | 22 | April 2009 –April 2017 |
| EMI options to directors | 100,000 | 24 | December 2007 –December 2015 |
| EMI options to directors | 50,000 | 22 | April 2009 –April 2017 |
| Other EMI options | 24,000 | 24 | December 2007 –December 2015 |

No options have been exercised or forfeited during the year and none have lapsed.

Additionally, On 20 December 2005 the Company entered into an option agreement with 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.

20 Statement of movements on reserves

| | Merger reserve £000 | Share premium account £000 | Profit and loss account £000 |
|--|------------------------------------|---|---|
| Group | | | |
| Balance as at 1 October 2006 | 662 | 67 | (802) |
| Retained loss for the year | - | - | (476) |
| Equity-settled share-based payments | - | - | 69 |
| Premium on shares issued during the year | - | 964 | - |
| | <u>662</u> | <u>1,031</u> | <u>(1,209)</u> |
| Balance as at 30 September 2007 | <u>662</u> | <u>1,031</u> | <u>(1,209)</u> |
| Company | | | |
| Balance as at 1 October 2006 | | 67 | (10) |
| Retained loss for the year | | - | (69) |
| Equity-settled share-based payments | | - | 69 |
| Premium on shares issued during the year | | 964 | - |
| | | <u>1,031</u> | <u>(10)</u> |
| Balance as at 30 September 2007 | | <u>1,031</u> | <u>(10)</u> |

21 Reconciliation of movements in shareholders' funds

| | Group | | Company | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Loss for the year | (476) | (525) | (69) | (63) |
| Equity-settled share-based payments | 69 | 53 | 69 | 53 |
| Proceeds from shares issued during the year | 1,000 | 701 | 1,000 | 253 |
| Issue costs | - | (77) | - | (77) |
| | <u>593</u> | <u>152</u> | <u>1,000</u> | <u>166</u> |
| Net increase in shareholders' funds | 593 | 152 | 1,000 | 166 |
| Opening shareholders' funds | 36 | (116) | 166 | - |
| | <u>629</u> | <u>36</u> | <u>1,166</u> | <u>166</u> |
| Closing shareholders' funds | <u>629</u> | <u>36</u> | <u>1,166</u> | <u>166</u> |

22 Reconciliation of operating loss to operating cash flows

| | 2007 £000 | 2006 £000 |
|--|----------------------|----------------------|
| Operating loss | (394) | (563) |
| Depreciation of tangible assets | 122 | 90 |
| Equity-settled share-based payments | 69 | 53 |
| Increase in debtors | (75) | (96) |
| Increase in creditors | 209 | 39 |
| | <u>(69)</u> | <u>(477)</u> |
| Net cash outflow from operating activities | <u>(69)</u> | <u>(477)</u> |

23 Analysis and reconciliation of net funds/debt

| | 1 October 2006 £000 | Cash flow £000 | 30 September 2007 £000 |
|--|------------------------------------|---------------------------|---------------------------------------|
| Net cash | | | |
| Cash at bank and in hand | 48 | 10 | 58 |
| Bank overdrafts | - | (50) | (50) |
| | <u>48</u> | <u>(40)</u> | <u>8</u> |
| Finance leases | (47) | 27 | (20) |
| | <u>1</u> | <u>(13)</u> | <u>(12)</u> |
| | | 2007 £000 | 2006 £000 |
| (Decrease)/increase in cash in the year | | (40) | 11 |
| Cash outflow from decrease in debt and lease financing | | 27 | 4 |
| | | <u>(13)</u> | <u>15</u> |
| Change in net funds/debt resulting from cash flows | | - | - |
| New finance leases | | (13) | 15 |
| | | <u>1</u> | <u>(14)</u> |
| Movement in net (debt)/ funds | | (12) | 1 |
| Opening net funds/(debt) | | <u>(12)</u> | <u>1</u> |
| Closing net (debt)/ funds | | <u>(12)</u> | <u>1</u> |

24 Financial commitments

At 30 September 2007 the group had annual commitments under non-cancellable operating leases as follows:

| | Land and buildings | | Other | |
|----------------------|---------------------------|----------------------|----------------------|----------------------|
| | 2007 £000 | 2006 £000 | 2007 £000 | 2006 £000 |
| Expiry date: | | | | |
| Within one year | - | - | 29 | 8 |
| In two to five years | 22 | 22 | 129 | 73 |
| In over five years | - | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

25 Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independent administered fund. The pension costs charge represents contributions payable by the company to the fund, which are as follows:

| | 2007 £000 | 2006 £000 |
|----------------------------|----------------------|----------------------|
| Contributions for the year | <u>4</u> | <u>-</u> |

26 Financial instruments

The Group's financial instruments comprise cash at bank and various items such as trade debtors and creditors that arise directly from its operations. The main purpose of these instruments is to raise finance for operations. The Group has not entered into derivatives transactions and does not trade in financial instruments as a matter of policy. The main future risks arising from the Group's financial instruments are interest rate risk and currency risk.

Operations to date have been financed through the placing of shares, hire purchase agreements and contracts paid in advance and it is Board policy to keep borrowings to a minimum. The company has no other long-term borrowings.

The company continues to apply FRS 13 and has taken advantage of the exemption contained in the Standard in respect of short-term debtors and creditors.

Interest rate risk profile of financial assets and liabilities

Financial assets

The only financial assets (other than short-term debtors) are cash at bank held at variable interest rates. Amounts held at 30 September 2007 were £58,000 in sterling.

Financial liabilities, excluding non-debt current liabilities

During the year to 30 September 2007 the Group incurred interest charges of £81,000 on hire purchase agreements and contracts paid in advance of £380,000.

Currency risk

In the opinion of the Directors the currency risk arising from overseas foreign currency held is minimal.

In the opinion of the Directors there is no material difference between the book and fair value of financial assets and liabilities.