BigHand Limited

Directors' report and consolidated financial statements

Registered number 03128724

31 March 2011

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Directors' report

The directors present their report and the financial statements of the group for the year ended 31 March 2011

Principal activities and business review

The group provides digital dictation workflow solutions, software, associated consultancy and training to the professional services and healthcare market

The year ended 31 March 2011 (being the first full year following the nFlow acquisition) was a very successful one with significant growth in all of the core markets and overall sales increasing 53% to £13 2m from £8 6m Profit before tax of £3 4m compared very favourably with profit before tax of £1 2m a year earlier

At 31 March, overall licensed user numbers stood at 135,000 representing a 42% increase over the year Of the 40,000 user increase, 17,000 came over from nFlow and 23,000 were from existing and new client wins with a near-zero attrition of the existing user base

The client base continues to grow with a number of wins in the year, including some large and prestigious customers Although new business is vital for the on-going success of the group, we continue to treat client service and after-sales support to our existing client base as the most important part of our business To this end, significant investment has taken place in the year in a new phone system, CRM software and a substantial increase in the team providing this service As a consequence, client retention remains high and we are seeing a number of new clients recognising this value and making the decision to switch to BigHand External client satisfaction surveys suggest that we are largely getting things right, but we will look to further improve where we can in the coming year with a number of initiatives already planned

The software innovations continue aplenty and investment into the Development team culminated in early 2011 with the release of v4 of the main Enterprise product which includes several significant enhancements Our class-leading mobile solution continues to prove itself a real differentiator in the market and the release in the year of iPhone and Android clients to join BlackBerry widens our offering to cover all of the major platforms

Overall, the size of the global BigHand team has grown in the year to support the larger client base and employee numbers increased 24% from 79 to 98 with further recruitment and training planned for the coming year to ensure clients receive the best service

Geographically, BigHand has offices in UK, Australia and North America with the overseas markets providing 30% of overall revenues and all of these markets showed record sales with strong growth in the financial year Across the sectors, the more mature Legal and Professional market is our largest with around 120,000 users and the Healthcare market is our fastest growing with a 43% increase in the number of users over the prior year and some key wins

Looking forward, the new financial year is seeing continued strong demand in the core markets With the sustained development pipeline of client focussed product enhancements the significant growth we have seen this year should continue

Results and dividends

The profit for the year, after taxation, amounts to £2,785,000 *(2010 £1,323,000)* The directors have not recommended a dividend

Directors' report *(continued)*

Principal risks and uncertainties

Sales outside of the UK are typically made in local currency The group is therefore exposed to movements in the international currency markets against Sterling At present these transactions are not hedged through currency contracts, but the policy is reviewed frequently

The group's credit risk is primarily attributable to its trade debtors but the group has not in the past experienced significant bad debts

The group monitors cash flow as part of its day to day control procedures The Board considers cash flow projections on a monthly basis and ensures that appropriate facilities are available to be drawn upon as necessary

Directors

The directors who served the company during the year were as follows

GM Gilbert
J Ardron
MI Norcliffe
SE Butterworth

Donations

During the year the group made charitable donations of £2,242 *(2010 £1,045)* The company made no political donations in either year

Auditors

HMT Assurance LLP resigned as auditors during the year and KPMG LLP were appointed Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

Signed on behalf of the directors

J Ardron
Director

Approved by the directors on 19 May 2011

Statement of directors' responsibility in respect of the directors' report and the financial statements

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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

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 group and parent company and of their profit or loss for that period In preparing each of the group and parent company 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities

KPMG

Independent auditors report to the members of BigHand Limited

We have audited the financial statements of BigHand Limited for the year ended 31 March 2011 set out on pages 5 to 18 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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 set out on page 3, 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, and express an opinion on, 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 (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

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 31 March 2011 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- 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

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

Wayne Cox *(Senior Statutory Auditor)*
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham NG1 6FQ

19 May 2011

Consolidated profit and loss account
for the year ended 31 March 2011

	Note	2011 £000	2010 £000
Group turnover	2	13,244	8,601
Cost of sales		(2,119)	(1,147)
Gross profit		11,125	7 454
Administrative expenses		(7,728)	(6,284)
Operating profit		3,397	1,170
Attributable to			
Operating profit before exceptional item		3,397	1,585
Exceptional items	3	-	(415)
		3,397	1,170
Interest receivable and similar income	6	33	6
Profit on ordinary activities before taxation		3,430	1,176
Tax on profit on ordinary activities	7	(645)	147
Profit for the financial year	17	2,785	1,323

In both the current and preceding year the company had no discontinued operations

There is no material difference between the result reported in the profit and loss account and the result on an unmodified historical cost basis

Consolidated statement of total recognised gains and losses
for the year ended 31 March 2011

	Note	2011 £000	2010 £000
Profit for the financial year		2,785	1,323
Currency translation differences on foreign currency net investments	17	(8)	(35)
Total recognised gains and losses related to the year		2,777	1,288

Consolidated balance sheet
as at 31 March 2011

	Note	2011 £000	2011 £000	2010 £000	2010 £000
Fixed assets					
Intangible assets	*9*		**2,334**		2,508
Tangible assets	*10*		**362**		262
			2,696		2,770
Current assets					
Stocks	*12*	**102**		152	
Debtors	*13*	**10,364**		9,730	
Cash at bank and in hand		**5,436**		1 954	
		15,902		11,836	
Creditors. amounts falling due within one year	*15*	**(8,773)**		(7,558)	
Net current assets			**7,129**		4,278
Net assets			**9,825**		7,048
Capital and reserves					
Called-up equity share capital	*16*		**1**		1
Share premium account	*17*		**71**		71
Profit and loss account	*17*		**9,753**		6,976
Shareholders' funds	*18*		**9,825**		7,048

These financial statements were approved by the board of directors on 19 May 2011 and signed on their behalf by

M I Norcliffe
Director

Company registered number 03128724

Balance sheet
as at 31 March 2011

	Note	2011 £000	2011 £000	2010 £000	2010 £000
Fixed assets					
Tangible assets	*10*		362		252
Investments	*11*		2,252		2,252
			2,614		2,504
Current assets					
Stocks	*12*	95		142	
Debtors	*13*	8,185		8,852	
Cash at bank and in hand		4,683		1 246	
		12,963		10,240	
Creditors. amounts falling due within one year	*15*	(6,751)		(5 827)	
Net current assets			6,212		4,413
Net assets			8,826		6,917
Capital and reserves					
Called-up equity share capital	*16*		1		1
Share premium account	*17*		71		71
Profit and loss account	*17*		8,754		6.845
Shareholders' funds	*18*		8,826		6,917

These financial statements were approved by the board of directors on 19 May 2011 and signed on their behalf by

M I Norcliffe
Director

Company registered number 03128724

Consolidated cash flow statement
for the year ended 31 March 2011

	Note	2011 £000	2011 £000	2010 £000	2010 £000
Net cash flow from operating activities	*19*		**3,836**		655
Returns on investment and servicing of finance					
Interest received		**33**		6	
Net cash flow from returns on investments and servicing of finance			**33**		6
Taxation			**(135)**		15
Capital expenditure					
Payments to acquire tangible fixed assets		**(252)**		(201)	
Net cash flow from capital expenditure			**(252)**		(201)
Acquisitions and disposals					
Cash paid to acquire subsidiaries		-		(1,985)	
Net cash acquired with subsidiary		-		571	
Net cash flow from acquisitions and disposals			-		(1,414)
Cash before financing			**3,482**		(939)
Net cash flow from financing			-		-
Increase/(decrease) in cash	*21*		**3,482**		(939)

Notes

(forming part of the financial statements)

1 Accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards

As permitted under the Companies Act the directors have adopted a more appropriate format of balance sheet, which more fairly presents the capital and financing structure of the business

The group and ultimate parent company have financing comprising loans and other funding which are subject to periodic review and are subject to certain covenants The directors are of the opinion that the necessary finance and other facilities will continue to be made available and the group and company will have the funding necessary to continue to trade The going concern basis is therefore believed to be appropriate and the financial statements do not include any adjustments which may be necessary should the facilities not be available

Basis of consolidation

The consolidated financial statements incorporate the results of BigHand Limited and all of its subsidiary undertakings as at 31 March 2011 using the acquisition method of accounting where the results of the subsidiary undertakings are included from the date of acquisition

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax, plus any adjustments for deferred income, so that income is recognised only when the goods and services have actually been provided to the group's customers

Research and development

Research and development expenditure is written off in the year in which it is incurred

Goodwill

Goodwill arising on an acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired Positive goodwill is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life of 20 years Impairment tests on the carrying value of goodwill are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable

Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Goodwill - Amortised over 20 years

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows

Leasehold property	-	10% straight line
Fixtures and fittings	-	25% reducing balance
Equipment	-	50% straight line

Investments

Investments held as fixed assets are stated at cost less any provision for impairment

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets 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

Deferred tax balances are not discounted

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction Exchange differences are taken into account in arriving at the operating profit

Finance costs

Interest payable is charged to the profit and loss account on an accruals basis Loan issue costs are initially recognised as a reduction in loan proceeds and are subsequently charged to the profit and loss account over the term of the loan

2 Turnover

The turnover and profit before tax are attributable to the one principal activity of the group An analysis of turnover is given below

	2011	2010
	£000	£000
United Kingdom	**9,218**	5,687
North America	**2,356**	1,791
Europe	**334**	482
Australasia	**1,336**	641
	13,244	8,601

Notes *(continued)*

3 Operating profit

	2011 £000	2010 £000
Operating profit is stated after charging/(crediting)		
Amortisation of intangible assets	123	1
Depreciation of owned fixed assets	146	170
Operating lease rentals – land and buildings	221	206
Loss/(profit) on disposal of fixed assets	6	(5)
Net profit on foreign currency translation	(84)	(119)
Exceptional items	-	415
Auditors remuneration		
- audit of the financial statements	14	14
- other services relating to taxation	4	4
- all other services	-	6

The exceptional items all relate to the reorganisation and restructuring of the group

4 Particulars of employees

The average number of employees (including directors) during the year was 88 *(2010 79)*

	2011 £000	2010 £000
The aggregate payroll costs of the above were		
Wages and salaries	3,649	3,730
Social security costs	388	379
	4,037	4,109

5 Directors' remuneration

	2011 £000	2010 £000
The directors' aggregate remuneration in respect of qualifying services was		
Remuneration receivable	446	885
Remuneration of highest paid director		
Total remuneration (excluding pension contributions)	182	167

In the prior year, included within the £366,000 reorganisation and restructuring costs in exceptional items are director's exit fees of £300,000

6 Interest receivable and similar income

	2011 £000	2010 £000
Bank interest receivable	33	6

Notes *(continued)*

7 Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2011		2010	
	£000	**£000**	£000	£000
Current tax:				
UK taxation				
UK corporation tax based on the results for the year	**491**		-	
Adjustment in respect of prior years	**14**		(41)	
		505		(41)
Foreign tax				
Current tax on income for the year	**44**		20	
Adjustments in respect of prior years	-		(8)	
		44		12
Total current tax		**549**		(29)
Deferred tax				
Origination and reversal of timing differences	**96**		(38)	
Other	-		(80)	
Total deferred tax (note 14)		**96**		(118)
Tax on profit on ordinary activities		**645**		(147)

(b) Factors affecting current tax charge

The tax assessed on ordinary activities for the year is lower *(2010 lower)* than the standard rate of corporation tax in the UK of 28% *(2010 28%)* The differences are explained below

	2011	2010
	£000	£000
Profit on ordinary activities before taxation	**3,430**	1 176
Profit on ordinary activities by rate of tax	**960**	329
Effects of		
Expenses not deductible for tax purposes	**(69)**	(7)
Capital allowances for the year in excess of depreciation	**(6)**	38
Group relief	**(278)**	(359)
Movement in short term timing differences	**(73)**	80
Losses carried forward/(utilised)	**1**	(61)
Adjustments in respect of prior years	**14**	(49)
	549	(29)

8 Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company was £1,909,000 *(2010 £991 000)*

Notes *(continued)*

9 Intangible fixed assets

Group	Goodwill £000
Cost	
At 1 April 2010	2,510
Additions	-
Fair value adjustments	(51)
At 31 March 2011	2,459
Accumulated amortisation	
At 1 April 2010	2
Charge for the year	123
At 31 March 2011	125
Net book value	
At 31 March 2011	**2,334**
At 31 March 2010	2,508

10 Tangible fixed assets

Group	Leasehold property £000	Fixtures and fittings £000	Equipment £000	Total £000
Cost				
At 1 April 2010	199	47	733	979
Additions	28	112	112	252
Disposals	-	(8)	-	(8)
At 31 March 2011	227	151	845	1,223
Accumulated depreciation				
At 1 April 2010	90	35	592	717
Charge for the year	22	65	59	146
Disposals	-	(2)	-	(2)
At 31 March 2011	112	98	651	861
Net book value				
At 31 March 2011	**115**	**53**	**194**	**362**
At 31 March 2010	109	12	141	262

Notes *(continued)*

10 Tangible fixed assets *(continued)*

Company	**Leasehold property £000**	**Fixtures and fittings £000**	**Equipment £000**	**Total £000**
Cost				
At 1 April 2010	198	41	729	968
Additions	28	112	112	252
Disposals	-	(8)	-	(8)
At 31 March 2011	226	145	841	1,212
Accumulated depreciation				
At 1 April 2010	90	35	592	717
Charge for the year	21	58	57	136
Disposals	-	(2)	-	(2)
At 31 March 2011	111	91	649	851
Net book value				
At 31 March 2011	**115**	**54**	**192**	**362**
At 31 March 2010	108	6	137	252

11 Investments

	Group Companies £000
Cost	
At 1 April 2010	2,252
Additions	-
At 31 March 2011	2,252
Net book value	
At 31 March 2011	**2,252**
At 31 March 2010	2,252

The company owns 100% of the issued share capital of the companies listed below

Name	**Country of incorporation**
nFlow Software Limited *	UK
nFlow Holdings Limited	UK
BigHand Inc	USA
BigHand Software Inc	Canada
BigHand Software Pty Inc	Australia

* nFlow Software Limited owns 100% of the issued share capital

The principal activity of all of the companies is the provision of voice productivity solutions to the professional services and healthcare markets

Notes *(continued)*

12 Stocks

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Goods for resale	**102**	152	**95**	142

13 Debtors

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Trade debtors	**2,840**	2,893	**1,906**	1,746
Amounts owed by group undertakings	**7,267**	6,612	**6,086**	6,873
Corporation tax repayable	**-**	-	**-**	30
Other debtors	**228**	100	**167**	78
Deferred taxation (note 14)	**29**	125	**26**	125
	10,364	9,730	**8,185**	8,852

14 Deferred taxation

The movement in the deferred taxation asset during the year was

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Asset brought forward	**125**	7	**125**	7
(Decrease)/increase in asset	**(96)**	118	**(99)**	118
Asset carried forward	**29**	125	**26**	125

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Excess of depreciation over taxation allowances	**20**	42	**17**	42
Other timing differences	**9**	83	**9**	83
	29	125	**26**	125

Notes *(continued)*

15 Creditors: amounts falling due within one year

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Trade creditors	**557**	537	**427**	468
Corporation tax	**419**	4	**320**	-
Other taxation and social security	**1,123**	854	**942**	722
Deferred income	**5,860**	4,523	**4,273**	3,541
Accruals	**814**	1,640	**789**	1,096
	8,773	7,558	**6,751**	5,827

16 Share capital

	2011	2010
	£000	£000
Allotted called up and fully paid		
108,748 ordinary shares of £0 01 each	**1**	1

17 Reserves

	Group		Company	
	Share premium account	**Profit and loss account**	**Share premium account**	**Profit and loss account**
	£000	**£000**	**£000**	**£000**
Balance brought forward	71	6,976	71	6,845
Profit for the year	-	2,785	-	1,909
Foreign exchange movement	-	(8)	-	-
Balance carried forward	**71**	**9,753**	**71**	**8,754**

18 Reconciliation of movement in shareholders' funds

	Group		Company	
	2011	2010	**2011**	2010
	£000	£000	**£000**	£000
Profit for the financial year	**2,785**	1,323	**1,909**	991
Foreign exchange movement	**(8)**	(35)	-	-
Net movement in shareholders' funds	**2,777**	1,288	**1,909**	991
Opening shareholders' funds	**7,048**	5 760	**6,917**	5,926
Closing shareholders' funds	**9,825**	7,048	**8,826**	6,917

Notes *(continued)*

19 Reconciliation of operating profit to net cash flow from operating activities

	2011 £000	2010 £000
Operating profit	3,397	1,170
Amortisation	123	1
Depreciation	146	169
Loss/(profit) on disposal of fixed assets	6	(5)
Decrease in stocks	50	1
Increase in debtors	(727)	(2,390)
Increase in creditors	841	1,709
	3,836	655

20 Reconciliation of net cash flow to movement in net funds

	2011 £000	2010 £000
Increase/(decrease) in cash in the year	3,482	(939)
Movement in net funds in the period	3,482	(939)
Opening net funds	1,954	2,893
Closing net funds	5,436	1,954

21 Analysis of changes in net debt

	Opening balance £000	Cash flows £000	Other changes £000	Closing balance £000
Net cash				
Cash in hand and at bank	1,954	3 482	-	5,436
	1,954	3,482	-	5,436

22 Commitments under operating lease

At 31 March 2011 the group and company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings 2011 £000	2010 £000
Group		
Operating leases which expire		
After more than five years	221	240
Company		
Operating leases which expire		
After more than five years	206	206

Notes *(continued)*

23 Cross guarantees

The company has entered into a cross guarantee arrangement to secure the bank loans and debenture loans of its parent company, BigHand Holdings Limited The loans are secured by fixed and floating charges over all of the assets of the group The total amount outstanding on the loans at 31 March 2011 is £10,126,000 *(2010 £10,450,000)*

24 Related party transactions

The company has taken advantage of the exemption conferred by FRS 8 'Related party disclosures' not to disclose transactions with members of the group

25 Ultimate parent company

The company's ultimate parent company is BigHand Holdings Limited

Copies of the consolidated financial statements of BigHand Holdings Limited are available from Companies House