

**IMAGINATIK PLC**  
**Report and Financial Statements**  
**31 March 2010**

THURSDAY



\*AC21KN95\*

A32

09/09/2010

334

COMPANIES HOUSE

# **IMAGINATIK PLC**

## **Annual report and financial statements for the year ended 31 March 2010**

---

### **Page**

1	Officers and professional advisers
2	Chairman's statement
3	Operational review
6	Directors
7	Statement of corporate governance
9	Remuneration report
10	Report of the directors
14	Independent auditor's report to the shareholders of Imaginatik plc
16	Consolidated statement of comprehensive income
17	Consolidated statement of financial position
18	Parent company statement of financial position
19	Consolidated and parent company cash flow statements
20	Consolidated statement of changes in equity
21	Notes forming part of the financial statements

---

## **Officers and professional advisers**

---

<b>Company secretary</b>	Mr S K Taylor
<b>Company number</b>	3936915
<b>Nominated adviser and broker</b>	Arbutnot Securities Limited 20 Ropemaker Street London EC2Y 9AR
<b>Registered office</b>	22 Melton Street London NW1 2BW
<b>Website</b>	<a href="http://www.imaginatik.com">www.imaginatik.com</a>
<b>Bankers</b>	Bank of Scotland 144-148 High Street Southampton SO14 2JF
<b>Auditor</b>	RSM Tenon Audit Limited Statutory Auditor The Poynt 45 Wollaton Street Nottingham NG1 5FW
<b>UK solicitors</b>	Marriott Harrison Staple Court 11 Staple Inn London WC1V 7QH
<b>US solicitors</b>	Dorsey & Whitney LLP 250 Park Avenue New York NY 10177 United States of America
<b>Registrars</b>	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA
<b>Public relations</b>	ICIS Limited 3 <sup>rd</sup> Floor Aldermay House 10-15 Queen Street London EC4N 1TX

## Chairman's statement

---

Whilst the past year saw the addition of some great new customers to our client base and the launch of an exciting new version of our software, the financial results for the year were significantly below our original expectations. The strong increase in revenues in the first half of the financial year was not repeated in the second half. Whilst we still enjoy a relatively high level of recurring revenue we did not secure as many new customers as we had anticipated, resulting in a shortfall in revenues. This drop in the level of business in the second half came as a result of a combination of difficult trading conditions, which we are still experiencing, and some structural issues within the sales operations which are being addressed.

I am pleased to report that one of the contracts scheduled for closure in Q4 with an existing client, Goodyear, has subsequently been secured in Q1 of the current year and we are in contract negotiations with a number of other prospects.

Whilst we have seen some excellent validation of our marketplace by industry research firms during the year, idea management and collaborative innovation are still yet to become mainstream business processes and as such the amount of sales and marketing effort required to convert new customers continues to be relatively high. We have one hugely valuable asset in this respect, which is our extremely supportive customer base, many of whom continue to be happy to publish the excellent results they have achieved using Idea Central. However, we are still refining our sales and marketing efforts. Our commitment to this is demonstrated through the recent hire of an Interim Vice President of Sales, under whose guidance we intend to build a world-class sales team.

Following the year end, CEO Mark Turrell left the Company by mutual consent and I stepped into the role of Executive Chairman pending the appointment of a full time Chief Executive and subsequently Shawn Taylor, CFO took on the additional role of Chief Operating Officer. The Board is committed to bolstering the senior management team, in order to fortify areas which require specific skills and experience. We intend over the course of the year ahead to be able to announce several senior hires to ensure the Company has the right composition to succeed.

The market opportunity for Imaginatik remains significant. The proliferation of social networking sites, instant messaging platforms and the increased usage of software delivered via the internet in the business environment are all factors which we believe are combining to open the door for collaborative innovation in the workplace. Businesses and their leaders continue to face many large scale challenges, which our software and consultancy can help them overcome. Our challenge is to ensure that we are communicating the right messages to these business leaders in order to secure an increasing level of new business.

I would like to thank our employees, partners, customers and shareholders for their continued support and look forward to working with them in taking Imaginatik forward.

**Matthew Cooper**  
Executive Chairman  
23 June 2010

## Operational review

---

Whilst the financial results achieved this year have been disappointing, several of our key metrics have demonstrated continued progress. The average contract value has increased by 27% and there is clearly a growing appetite for longer-term, multi-year contracts not seen in previous years. This gives us confidence that the organisations purchasing our software and consultancy have a strong understanding of the merits of idea management and collaborative innovation and are willing to make a significant long-term commitment to it.

Imaginatik continues to hold several significant competitive advantages in the collaborative innovation market. We have the broadest amount of practical, multi-year deployment experience across a range of different industries. Our software platform is very flexible and has handled a wide variety of customer uses at scale without undue customisation or consulting work. We have over 10 years of experience and expertise gained through working with some of the world's most demanding companies. As highlighted in the Interim Results statement, the industry is becoming more competitive as it begins to move towards the mainstream. To that end we have invested significantly in our software platform over the year to ensure that we remain competitive. Our plans are to diversify out of a single product offering, developing solutions for specific verticals and increasing the size of our development team.

Whilst we secured some excellent new client wins during the year, within sectors such as healthcare, insurance, financial services and technology and have increased the size of deals to current clients, including Kelloggs and Chubb Insurance, we did not secure as many new clients as we had anticipated, especially in the second half of the financial year. This is in part due to the difficult global economic circumstances but also due to structural issues within our sales operations. These issues are being addressed, we have recently appointed an Interim Vice President of Sales to take responsibility for the function and one of his early goals is to seek a permanent US based sales manager. We will give further updates to shareholders on this restructuring in due course.

In the face of ongoing economic pressures we are aggressively managing costs and aligning the Company in terms of size, operations and structure to the current market opportunity.

## Financial Review

Turnover for the year ended 31 March 2010 was broadly the same, year on year at £4.6m (2009 £4.6m). 20% of this revenue was derived from up-selling our software and services into existing customers, 29% from selling into new clients, and 51% from recurring business (2009 18.33/49%). We added an additional 6 new customers on annual contracts during the course of the year (2009 11). The US continues to be our core market and the percentage of revenues received from the region grew this year to 90% (2009 81%) with the remaining 10% made up from the Rest of the World (2009 19%).

Due to a number of contract cancellations, largely driven by the deteriorating economic climate, annual recurring revenues have decreased by 32% to £2.2m (2009 £3.3m).

Total operational costs increased 30% in the year to £5.7m (2009 £4.4m). This rise in cost base is a consequence of the significant investment we have made in strengthening our sales and marketing capabilities in the expectation of driving future revenues. As a result of this substantial rise in the cost base and lower than anticipated revenues, our operating loss before tax has increased to £1.4m (2009 loss of £0.1m).

In August 2009 we raised £1.51 million net of expenses through a placing of 26,266,666 new ordinary shares of 0.0625 pence each at a price of 6 pence per share. The net proceeds of the Placing are being used to provide the Company with the resources to pursue its growth plans and for general working capital purposes.

Our cash position has strengthened over the year with cash and cash equivalents at the year end standing at £1.51m (2009 £1.14m) and net total equity attributable to shareholders has risen to £1.70m (2009 £1.45m).

## Sales and Marketing

During the first half of the year we grew our sales team from seven to 10 people. However, the deterioration in new business wins in the second half of the year caused us to carry out some restructuring to the team. We are now putting in place new management and reporting systems and we are pleased to welcome, after the year end, Giles Howard as Interim Vice President of Sales. Giles is working alongside the existing management team with specific responsibility for building Imaginatik's sales team and helping to identify a permanent candidate for the position. Giles has extensive commercial and sales-based experience with a career spanning over 20 years in various aspects of the sales industry.

In the year, we signed six new customers onto annual licenses and a number of pilot projects, which are all delivered via the Software as a Service (SaaS) model. We continue to sell across a range of verticals adding new clients from the telecommunications, public and manufacturing sectors.

**Operational Review (continued)**

---

Post the year end we closed two important contracts, the first a two year deal delayed from Q4 with Goodyear, a long-standing customer which has increased its use of Idea Central, the second a new customer win with Irving Oil in North America. We continue to be in contract discussions with several other existing and new customers, one of which remains delayed from Q4.

We increased our marketing budget during the year to support our sales efforts. This includes the launch of an enhanced new website in the second half of the year and an increased web presence. We have engaged with a U.S. PR agency and continue to have ongoing dialogue with industry analysts, aiming to capitalise on the growing awareness of our industry. We continue to build our sales pipeline through attendance at key industry events, including most recently the Front End of Innovation in Boston, the CFO summit in Florida and World Innovation Forum in New York.

#### **Customer Case Studies**

Idea Central continues to deliver significant results for some of the world's leading organisations. Some examples of projects implemented over the year through the use of our software are as follows,

- *Fireman's Fund insurance company tap into deeply rooted culture of innovation* The premier property and casualty insurer wished to identify the best ideas implemented and share them across the company, and also to embed innovation into its culture and practices. In the first year, Fireman's Fund achieved a 58% participation rate among all employees, collecting nearly 2,200 implemented ideas with an estimated business value in the millions of dollars. Jan Schultz, Senior Director of Innovation at Fireman's Fund Insurance Company, stated, "Fireman's Fund's goal is to make innovation a part of our culture – our everyday way of doing things. It can't be just the flavour of the day. We're on the path to achieving that now and Imaginatik has been an important partner on that journey."
- *Xerox generates high quality ideas through Idea Central event* One of the world's leaders in technology sought to increase the number of top quality research ideas, provide measurable results, and fit well within the corporate culture. An Idea Central event by Imaginatik generated 10 times the amount of high quality ideas compared to the face-to-face approach, many of which were integrated into the company's research portfolio almost immediately. George Gibson, a leader within the Xerox Innovation Group, stated, "For our application, we found Idea Central to be the best, most integrated, and most comprehensive idea management software available on the market. We were really impressed with the energy of the people at Imaginatik, and the openness of the community. We felt they were committed to making us successful."

#### **Product Development**

During the year under report we have made significant investment in increasing the size of our product development team in order to enhance our software and solutions platform. Highlights of the period include the release in January 2010 of Idea Central 10, providing a major update to our award-winning collective intelligence software solution. We have also introduced Idea Central Mobile, which has been developed in collaboration with one of our clients, Chubb Insurance. The product was demonstrated recently at a Chubb conference in Boston allowing all conference attendees to participate in an Idea Central event from their mobile device.

Other product developments include a new solution that integrates Idea Central with Microsoft SharePoint. This module will enable clients to integrate Idea Central with other software products.

We shall seek to further strengthen our product range over the next year by introducing new offerings that complement the core Idea Central platform. These will include a portfolio tracking solution, advanced review and assessment tools, further focus on integration with enterprise systems and expanding access via mobile devices.

#### **Board Changes**

As previously announced, Matthew Cooper joined the Board of Imaginatik as non-executive Chairman on 9 October 2009 replacing Howard Marshall who retired from the Board following three years with the Company. The Board is grateful to Mr. Marshall for his contribution to the growth of the Company during his time with Imaginatik. His assistance throughout the IPO and the Company's first years as a public company was invaluable.

On the 22 December 2009, Geoffrey Carss, Executive Director responsible for Sales and Professional Services, resigned from the Board. The Board would like to thank Mr. Carss for his contribution to the development of Imaginatik over the past three years and wish him well in his future endeavours.

## **Operational Review (continued)**

---

On the 7 June 2010, following the year end, the Company announced that Mark Turrell, CEO, left the Company by mutual consent. Matthew Cooper was appointed as interim Executive Chairman pending the appointment of a full time Chief Executive.

Subsequently, on the 15 June 2010, Shawn Taylor, CFO, was appointed Chief Operational Officer and CFO, assuming responsibility for the operational management of the Company alongside his current financial responsibilities as CFO.

### **Outlook**

The first quarter of the financial year is a traditionally slow one and that trend has continued this year although we have seen some improvement over the first quarter of 2009. We continue to sign new business and are particularly pleased to have entered the resource sector, one in which we have not previously had a presence.

Idea Central continues to be deployed in some of the world's largest organisations, across multiple industries, and the enhancements we have made to our platform in the year have ensured we remain at the forefront of our industry. Our focus is now on the aggressive management of costs, while building a world-class sales and management team with the appropriate skills and expertise to grow the Company within a fast-moving marketplace.

**Shawn Taylor**  
COO & CFO  
23 June 2010

## Directors

---

The board comprises three executive directors and two non-executive directors, whose details are set out below

### **Shawn Karl Taylor FCA (*Chief Financial Officer, aged 47, British*)**

Shawn joined Imaginatik in September 2005 and maintains responsibility for financial systems and processes. Shawn also has responsibility for the routine financial controls, management accounting, forecasting and budgeting procedures, treasury management, foreign exchange control and corporate governance compliance.

He has eleven years' experience as a public company Chief Financial Officer and has led companies through growth phases having previously been Chief Financial Officer of HIT Entertainment Plc from 1998 to 2001 and Content Film Plc from 2001 to 2004.

### **Andrew Karl Wainwright (*Chief Technology Officer, aged 43, British*)**

Andrew manages hosting operations, client support, pre-sales technical support and internal IT. He is responsible for creating Imaginatik's hosted services. His background includes 12 years with IBM from 1988 to 2000, where he was European Manager for Hosted Services. Andrew has written three technical books on managing hosted systems, and has been an IT management consultant. Andrew has an MA in Mathematics from the University of Cambridge. Andrew joined Imaginatik in November 2001.

### **Paul Gilmer Morland ACA (*Non-executive director, aged 49, British*)**

Having qualified as a Chartered Accountant with PricewaterhouseCoopers in 1985, Paul spent three years at Schroder Investment Management. He then held various accounting roles in industry including divisional CFO at Serco Plc.

In 1995 he joined NatWest Securities and was voted the number one analyst in the UK technology sector in the 1998 Extel survey. During this period he was involved in a number of flotations including Autonomy and Computacenter. He was consistently ranked in the top three analysts in his sector until he left Deutsche Bank (which acquired NatWest Securities in 1999) in 2000 to become the CFO of a privately owned IT services company. He returned to an analyst role in the Software and IT Services sector in 2002 and his team at Societe Generale was voted number two in the 2005 pan-European Extel survey. Between 2005-08 Paul was the Software and Computer Services analyst at Arbuthnot Securities. At present Paul works as a software analyst for Blue Oar Securities Plc.

### **Matthew Cooper (*Non-executive Chairman aged 44, American, Appointed 9 October 2009*)**

Matthew Cooper was appointed to the board to replace Howard Marshall as Non-executive Chairman. Matthew is a graduate of Princeton University and an American national, is an experienced public company director and investor. He has been the Chairman of Octopus Capital Limited since 2002 and is currently a non-executive director of a number of VCTs and private companies. Prior to joining Octopus, Matthew was the Principal Managing Director of Capital One Bank (Europe) plc where he was responsible for all aspects of the company's strategic direction and day-to-day operations in Europe. He led the UK portion of the business from start-up to 2 million customers, generating annual revenues of over £275 million and employing over 2,000 people.

## Ex-Directors

During the year the following directors resigned from the board

Geoff Charlton Carss (Resigned 9 December 2009)  
Howard Cleveley Marshall (Resigned 9 October 2009)  
Mark Clifford Turrell (Resigned 4 June 2010)

## Board committees

The board has established an audit committee and a remuneration committee. Each of the two committees comprises the two non-executive directors. Paul Morland chairs the audit committee and Matthew Cooper chairs the remuneration committee.



## Statement of corporate governance

---

The directors recognise the importance of sound corporate governance and the guidelines set out in the Principles of Good Corporate Governance and Code of Best Practice (the "Combined Code"), which post year end has been replaced by the UK Corporate Governance Code. Whilst AIM companies are not obliged to comply with the Combined Code, the directors do intend to comply with the Combined Code so far as is appropriate having regard to the size and nature of the various companies which comprise the group. The board takes such measures so far as practicable to comply with the Combined Code and in addition, the Quoted Companies Alliance ("QCA") Guidelines for AIM Companies.

### Board composition

The group has two executive directors and two non-executive directors. The board retains full and effective control over the group. The group holds regular board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. Apart from regular meetings, additional meetings will be arranged when necessary to review strategy, planning, operational and financial performance, risk, capital expenditure and human resource. The board is also responsible for monitoring the activities of the executive management. To enable the board to perform its duties, all directors will have full access to all relevant information. If necessary the non-executive directors may take independent professional advice at the group's expense.

### Board committees

The directors have established an audit committee and a remuneration committee with formally delegated duties and responsibilities.

#### *The audit committee*

The audit committee meets at least twice a year. The committee reviews the group's annual and interim financial statements before submission to the board for approval. The committee also reviews regular reports and meets with management and the external auditors on accounting and internal control matters. Where appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors.

#### *The remuneration committee*

The remuneration committee meets twice a year. It 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 as a whole and the performance of the group. The remuneration committee also determines allocations of any warrants or options granted under any share option scheme adopted by the group now and in the future and is responsible for setting any performance criteria relevant to such warrants or options.

### Board appointments

Any decision to appoint further directors to the board is taken by the entire board in a formal meeting. Where it is deemed necessary, new members of the board are provided with appropriate training in respect of their roles and duties as a public company director.

### Investor relations

The group places a great deal of importance on communication with its shareholders.

M Cooper has been identified as the group's Senior Independent Director. He is available to shareholders who wish to raise any concerns that they have been unable to resolve through other channels and to attend meetings between management and major investors.

The notice of the AGM will be sent to shareholders at least 21 clear days before the Meeting. At the forthcoming AGM, the group will indicate the level of proxy voting and members of the board committees will be available to answer questions.

## **Statement of corporate governance (continued)**

---

### **Corporate social responsibility**

The group continues to make progress towards becoming carbon neutral throughout its operations in both the UK and USA. This has taken the shape of an assessment of our carbon footprint using external consultants which will lead to a plan to reduce our future emissions and to offset those which are unavoidable.

### **Going concern**

After making enquiries, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

### **Internal control**

The directors acknowledge their responsibility for the group's systems of internal control.

The group maintains systems of internal control to provide reasonable but not absolute assurance against material misstatement or loss.

The system of internal control is structured around an assessment and prioritisation of the various risks to the business. The control environment is designed to address particularly those risks that the board considers to be material to the business, in safeguarding the assets against unauthorised use or disposition and maintaining proper accounting records which produce reliable financial information.

The board has reviewed the effectiveness of the system of internal control for the accounting period and the period to the date of approval of the financial statements.

The key features of the group's systems of internal control are as follows:

- an ongoing process of risk assessment to identify, evaluate and manage business risks,
- management structure with clearly defined responsibilities and authority limits,
- a comprehensive system of reporting financial results to the board, and
- appraisal and authorisation of capital expenditure.

The group does not currently operate an internal audit function. At the audit committee meetings the Chief Financial Officer presents a formal report on internal controls and a programme of work to ensure systems and processes are continuously improved.

## Remuneration report

---

### Responsibilities

The remuneration committee is responsible for the determination of the remuneration policy of the group's executive directors and senior executives

### Composition

The members of the remuneration committee ("the committee") during the year were M Cooper (Chairman of the committee) and P G Morland. At the beginning of the year H C Marshall was a member of the committee but retired during the year.

### Directors' service contracts

The service contracts entered into by the Chief Executive Officer and Chief Financial Officer require twelve months' notice of termination, on either side. The service contract of the Chief Technology Officer requires six months' notice of termination on either side.

Each director's term of office expires at the forthcoming Annual General Meeting.

### Remuneration of non-executive directors.

The remuneration for the non-executive directors is determined by the board as a whole and consists of fees and share options for their services in connection with board and board committee meetings and, where relevant, for additional services such as chairing a board committee. They are not eligible for pension scheme membership and do not participate in any bonus scheme.

Non-executive directors do not participate in decisions about their own remuneration.

### Executive remuneration policy

The committee endeavours to offer competitive remuneration packages which are designed to attract, retain and provide appropriate incentives to executive directors and senior executives with the experience and necessary skills to operate and develop the group's business to their maximum potential, thereby delivering the highest level of return for the shareholders.

Consistent with this policy, benefits packages awarded to executives are intended to be competitive and comprising a mix of non performance-related and performance-related remuneration designed to provide appropriate incentives to them, but not to detract from the goals of corporate governance.

### Remuneration components for executive directors

Remuneration packages are reviewed each year to ensure that they are in line with the group's business objectives. No director participates in decisions about their own remuneration package.

The main components in determining pay are as follows:

#### *Basic salary/fees and benefits*

The basic annual salary is subject to an annual review which takes into account the performance of the group and the individual. Benefits comprise the provision of private healthcare insurance.

#### *Annual performance-related bonus*

Demanding annual performance targets, which are consistent with both the short and long term objectives for the business, are set for executive directors which must be achieved before the bonus is payable.

#### *Pensions*

A K Wainwright is entitled to an annual pension contribution of £7,000 (2009: £7,000).

## Remuneration report (continued)

### Remuneration components for executive directors (continued)

#### Executive share options schemes

Share options are granted to executive directors to encourage them to deliver sustained, long term growth. Except in exceptional circumstances, the value of options granted in any year will not exceed two and a half times basic salary.

### Directors' detailed emoluments

The emoluments of the directors of the group were as follows

	Salary	Pension contribution	Compensation for loss of office	Equity payments	2010 Total	2009 Total
	£'000	£'000	£'000	£'000	£'000	£'000
M C Turrell	100	-	-	-	100	56
A K Wainwright	100	7	-	29	136	125
S K Taylor	120	-	-	53	173	128
G C Carss	91	-	60	31	182	-
H C Marshall	25	-	-	-	25	30
P G Morland	25	-	-	-	25	23
M Cooper	19	-	-	-	19	15
	480	7	60	113	660	377

Contributions to a defined contribution pension scheme were paid on behalf of one director (2009 one) during the year.

### Interests in share options

The following directors hold share options over the ordinary shares of the company

	Number of share options	Exercise price	Grant date
A K Wainwright	1,250,000	4p	15 December 2006
	1,000,000	6.75p	12 August 2009
S K Taylor	2,500,000	4p	15 December 2006
	2,000,000	6.75p	12 August 2009
M Cooper	1,000,000	6.75p	11 December 2009

M C Turrell has an interest in 1,300,000 options held by his wife Y U Lindow

After an initial two year qualification period 50% of the options are exercisable at any time up to the tenth anniversary of the date of grant. The remaining 50% of the options are exercisable between the third and tenth anniversaries of grant.

The mid-market price of the company's shares at 31 March 2010 was 4.38p (2009 5.25p)

**M Cooper**  
Chairman, Remuneration Committee

## Report of the directors for the year ended 31 March 2010

---

The directors present their report together with the audited financial statements for the year ended 31 March 2010

### Results and dividends

The consolidated statement of comprehensive income is set out on page 16 and shows the result for the year

The directors do not recommend the payment of a dividend

### Principal activity, trading review and future developments

The principal activity of the company and its subsidiaries is the provision of collaborative innovation software and related professional services

A review of the activities and prospects of the company is given in the Chairman's statement on page 2 and in the Operational review on page 3

### Directors

The directors of the company at the year end, all of whom served for the whole of the year unless stated, were

A K Wainwright	
S K Taylor	
P G Morland	
M Cooper	(appointed 9 October 2009)
G C Carss	(appointed 15 May 2009 and resigned 9 December 2009)
H C Marshall	(resigned 9 October 2009)
M C Turrell	(resigned 4 June 2010)

### Creditor payment policy

It is the company's policy to agree the terms of payment with suppliers to ensure suppliers are aware of those terms and to then abide by the terms

At the year end trade creditors represented 33 days (2009 32 days) of purchases

### Financial instruments risk management objectives and policies

The group finances its operations through a mixture of cash generated from operations and, where necessary to fund expansion or capital expenditure programmes, through bank borrowings or the proceeds of the sale of shares

Management's objectives are to

- retain sufficient liquid funds to enable the group to meet its day to day obligations as they fall due whilst maximising returns on surplus funds, and
- match the repayment schedule of any external borrowings or overdrafts with the expected future cash flows expected to arise from the group's trading activities

As all the group's surplus funds are invested in Pound Sterling and US Dollar bank deposit accounts and its borrowings are all obtained from standard bank loan accounts there is no price risk exposure

The group's surplus funds are held primarily in short term variable rate deposit accounts. The directors believe that this gives them the flexibility to release cash resources at short notice and also allows them to take advantage of changing conditions in the finance markets as they arise

Foreign exchange risk arises because the group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the group companies are operating. The group's policy is, where possible, to allow entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency

**Financial instruments risk management objectives and policies (continued)**

The group's borrowings are in variable interest rate loans which exposes the group to a cash flow risk associated with changing interest payments. The directors believe the ability to take advantage of falls in interest rates is more important than the certainty of knowing their financial commitments when managing the group's trading activities.

More details on financial instruments management objectives and policies are mentioned within note 23.

**IFRS**

We have prepared our financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

**Statement as to disclosure of information to auditors**

In so far as the directors are aware

- there is no relevant audit information of which the group's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

**Directors' responsibilities**

The directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting estimates that are reasonable and prudent,
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements,

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 and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. 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 group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the "Our Board" section of the annual report, confirm that, to the best of their knowledge

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group, and
- the directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

**Report of the directors for the year ended 31 March 2010 (continued)**

---

In accordance with Section 418 of the Companies Act 2006, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that

- a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- b) he has taken all the steps that 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

**Auditor**

RSM Tenon Audit Limited is deemed to be reappointed under section 487(2) of the Companies Act 2006

On behalf of the board

Shawn Taylor  
Secretary



19/7/10

## **Independent auditor's report to the shareholders of Imaginatik plc**

---

We have audited the financial statements of the group and parent company for the year ended 31 March 2010 which comprise the Consolidated Statement of comprehensive income, Consolidated and Parents Statement of Changes in Equity, Consolidated and Parents Statement of Financial Position, Consolidated and Parents Statement of Cash Flows 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.

This report is made solely to the group's shareholders, as a body, in accordance with Section 495 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the group's shareholders those matters we are required 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 group and the group's shareholders as a body, for our audit work, for this report or for the opinions we have formed.

### **Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' Responsibilities, set out on pages 12, 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 (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial accounts**

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 group'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**

In our opinion the financial statements

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2010 and of the group's loss for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### **Opinion on other matters 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



## Independent auditor's report to the shareholders of Imaginatik plc (*continued*)

---

### Matters on which we are required to report by exception

We have nothing to report in respect of the following

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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 of the information and explanations we require for our audit

*RSM Tenon Audit Limited*

Alistair Hunt FCA  
Senior Statutory Auditor

For and on behalf of  
RSM Tenon Audit Limited, Statutory Auditor

2 August 2010

## Consolidated statement of Comprehensive Income for the Year Ended 31 March 2010

	Note	2010 £	2009 £
<b>Revenue</b>	2	<b>4,550,646</b>	4,580,809
Cost of sales		(326,267)	(302,386)
<b>Gross profit</b>		<b>4,224,379</b>	4,278,423
Administrative expenses		(5,653,189)	(4,382,790)
<b>Operating loss before financing and taxation</b>	5	<b>(1,428,810)</b>	(104,367)
Operating (loss)/ profit before share option costs		(1,244,933)	128,893
Share option costs	3	(183,877)	(233,260)
Finance (costs)/income	6	(2,870)	1,939
<b>Loss on ordinary activities before taxation</b>		<b>(1,431,680)</b>	(102,428)
Taxation expense	7	(7,215)	-
<b>Loss on ordinary activities for the year</b>		<b>(1,438,895)</b>	(102,428)
Loss per share Basic and diluted	8	(0 96p)	(0 08p)

All of the above losses for the year are attributable to equity holders of the parent

All of the activities of the group are classed as continuing

The group has no recognised income or expenses other than the results for the year as set out above

The notes on pages 21 to 38 form part of these financial statements

Consolidated statement of financial position at 31 March 2010

	Note	2010	2009
		£	£
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	151,802	91,311
Intangible assets	12	161,359	154,239
<b>Current assets</b>		<b>313,161</b>	<b>245,550</b>
Trade and other receivables	13	1,596,020	1,551,522
Cash and cash equivalents		1,506,148	1,136,231
		<b>3,102,168</b>	<b>2,687,753</b>
<b>Total assets</b>		<b>3,415,329</b>	<b>2,933,303</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	14	99,515	82,920
Share premium	16	3,918,881	2,429,936
Share option reserve	16	520,652	336,775
Retained earnings	16	(2,837,257)	(1,398,362)
<b>Total equity attributable to equity holders of the parent</b>		<b>1,701,791</b>	<b>1,451,269</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Other payables	18	230,307	-
<b>Current liabilities</b>		<b>230,307</b>	<b>-</b>
Interest-bearing loans and borrowings	19	-	19,713
Trade and other payables	19	1,483,231	1,462,321
		<b>1,483,231</b>	<b>1,482,034</b>
<b>Total liabilities</b>		<b>1,713,538</b>	<b>1,482,034</b>
<b>Total equity and liabilities</b>		<b>3,415,329</b>	<b>2,933,303</b>

The financial statements were approved and authorised for issue by the board on  
by

and signed on its behalf

Shawn Taylor  
Director

19/7/10

The notes on pages 21 to 38 form part of these financial statements

Parent company statement of financial position at 31 March 2010

	Note	2010	2009
		£	£
<b>ASSETS</b>			
<b>Non-current assets</b>			
Investments	10	1	1
Property, plant and equipment	11	151,802	91,311
Intangible assets	12	161,359	154,239
<b>Current assets</b>		<b>313,162</b>	<b>245,551</b>
Trade and other receivables	13	1,913,642	1,895,673
Cash and cash equivalents		1,506,148	1,136,231
		<b>3,419,790</b>	<b>3,031,904</b>
<b>Total assets</b>		<b>3,732,952</b>	<b>3,277,455</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Issued capital	14	99,515	82,920
Share premium	16	3,918,881	2,429,936
Share option reserve	16	520,652	336,775
Retained earnings	16	(2,519,634)	(1,054,210)
<b>Total equity</b>		<b>2,019,414</b>	<b>1,795,421</b>
<b>Liabilities</b>			
<b>Non-current liabilities</b>			
Other payables	18	230,307	-
<b>Current liabilities</b>		<b>230,307</b>	<b>-</b>
Interest-bearing loans and borrowings	19	-	19,713
Trade and other payables	19	1,483,231	1,462,321
		<b>1,483,231</b>	<b>1,482,034</b>
<b>Total liabilities</b>		<b>1,713,538</b>	<b>1,482,034</b>
<b>Total equity and liabilities</b>		<b>3,732,952</b>	<b>3,277,455</b>

The financial statements were approved and authorised for issue by the board on  
by

and signed on its behalf

Shawn Taylor  
Director

19/7/10

The notes on pages 21 to 38 form part of these financial statements

**Consolidated and parent company cash flow statements for the year ended 31 March 2010**

	Note	£	2010 £	£	2009 £
<b>Cash (outflows)/ inflows from operating activities</b>	22		<b>(866,463)</b>		<b>781</b>
<b>Investing activities</b>					
Acquisition of property, plant and equipment		(172,048)		(97,456)	
Acquisition of intangible assets		<u>(77,399)</u>		<u>(97,478)</u>	
<b>Net cash used in investing activities</b>			<b>(249,447)</b>		<b>(194,934)</b>
<b>Net cash flow before financing activities</b>			<b>(1,115,910)</b>		<b>(194,153)</b>
<b>Financing activities</b>					
Net proceeds from the issue of share capital		1,505,540		264,416	
Repayment of borrowings		<u>(19,713)</u>		<u>(24,522)</u>	
<b>Net cash generated from financing activities</b>			<b>1,485,827</b>		<b>239,894</b>
<b>Net increase in cash and cash equivalents</b>			<b>369,917</b>		<b>45,741</b>
Opening net cash and cash equivalents			<u>1,136,231</u>		<u>1,090,490</u>
<b>Closing net cash and cash equivalents</b>			<b><u>1,506,148</u></b>		<b><u>1,136,231</u></b>

The company's subsidiary has no cash inflows or outflows and therefore the amounts above relate to both the parent company and the group. There is a difference in the reconciliation of operating loss to cash flows from operating activities, as shown in note 22.

The notes on pages 21 to 38 form part of these financial statements

# Statement of changes in equity for the year ended 31 March 2010

Group	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total £
Balance at 1 April 2008	78,182	2,170,258	103,515	(1,295,934)	1,056,021
Loss for the year	-	-	-	(102,428)	(102,428)
Share option costs	-	-	233,260	-	233,260
Shares issued	4,738	259,678	-	-	264,416
	4,738	259,678	233,260	(102,428)	395,248
Balance at 31 March 2009	82,920	2,429,936	336,775	(1,398,362)	1,451,269
Loss for the year	-	-	-	(1,438,895)	(1,438,895)
Share option costs	-	-	183,877	-	183,877
Shares issued	16,595	1,488,945	-	-	1,505,540
	16,595	1,488,945	183,877	(1,438,895)	250,522
Balance at 31 March 2010	99,515	3,918,881	520,652	(2,837,257)	1,701,791

  

Parent company	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total £
Balance at 1 April 2008	78,182	2,170,258	103,515	(917,426)	1,434,529
Loss for the year	-	-	-	(136,784)	(136,784)
Share option costs	-	-	233,260	-	233,260
Shares issued	4,738	259,678	-	-	264,416
	4,738	259,678	233,260	(136,784)	360,892
Balance at 31 March 2009	82,920	2,429,936	336,775	(1,054,210)	1,795,421
Loss for the year	-	-	-	(1,465,424)	(1,465,424)
Share option costs	-	-	183,877	-	183,877
Shares issued	16,595	1,488,945	-	-	1,505,540
	16,595	1,488,945	183,877	(1,465,424)	223,993
Balance at 31 March 2010	99,515	3,918,881	520,652	(2,519,634)	2,019,414

The notes on pages 21 to 38 form part of these financial statements

## 1 Accounting policies

### *General information*

The group headed by Imaginatik plc is one of the leading providers of collaborative innovation software and related professional services to large and medium-sized enterprises

The company is a public limited company incorporated and domiciled in the UK. The address of its registered office is 22 Melton Street, London, NW1 2BW

The company is listed on the Alternative Investment Market. The group consolidated financial statements were authorised for issue by the board of directors on 23 June 2010

The company has adopted the requirements of International Financial Reporting Standards (IFRS) and IFRIC interpretations endorsed by the European Union (EU) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards

These financial statements have been prepared in accordance with the accounting policies set out below, which have been consistently applied to all the years presented. These accounting policies comply with applicable IFRS and IFRIC interpretations issued and effective at the time of preparing these statements

### *Basis of consolidation*

The group financial statements for the year ended 31 March 2010 consolidate the financial statements of Imaginatik plc and its subsidiary undertaking using the acquisition method. Subsidiaries are entities that are directly or indirectly controlled by the group

The company has taken advantage of the exemption under S408 of the Companies Act 2006 and has not presented its own statement of comprehensive income. Of the consolidated result for the year ended 31 March 2010, a loss of £1,465,424 (2009: loss of £136,784) is attributable to the company

### *Functional Currency*

The national currency of the United States of America is the United States Dollar ("USD"), which is the company's functional currency, because it is the currency in which the Company primarily generates and expends cash and it reflects the economic substance of the underlying events and circumstances of the Company. These consolidated financial statements are presented in British Pounds Sterling ("GBP") since management believes that this currency is more useful for the users of the consolidated financial statements

### *Revenue*

Income for the group is derived from a number of different sources. These sources are service-based rather than through the sale of goods. Following the principles of IAS 18 'Revenue', the policies for income recognition in respect of each of the different sources of income are such that income is recognised to the extent that the group has obtained the right to consideration through its performance or delivery of a service in the period of account. Certain forms of income require a contractual obligation to be entered into between the group and the customer. In applying the income recognition policies below where there is a requirement for a contract to be signed, income is recognised in accordance with the policy when the contract has been signed or there is persuasive evidence that the contract will be signed

#### *a) Consulting*

Income derived from consulting subject to contracts is recognised in the month in which the consulting takes place. Income from longer term consulting arrangements shall be recognised evenly over the term of the contract

#### *b) Development*

Custom development work income is recognised in the month in which the work is performed and enhancements delivered to the client

**1 Accounting policies (continued)**

**c) Hosting**

Hosting income is recognised evenly over the term of the contract. Where hosting is included as part of a bundle within a contract and is not specifically itemised, an apportionment is taken as the hosting element of the contract. This amount is recognised over the period of hosting.

**d) Hosting set-up**

Income derived from the initial hosting set-up of a customer environment is recognised in the period in which the work is performed.

**e) Licence fees – annual, perpetual and multi-year**

Income that arises from annual licences is recognised in equal instalments over the number of years to which the contractual arrangement relates. Income arising from perpetual or multi-year licences are recognised in full in the period in which the contractual agreement has been signed or where there is persuasive evidence that the contract will be signed.

**f) Maintenance**

Income derived from maintenance fees is recognised over the term of the contract. Where a maintenance fee is not itemised in the contract but is still provided as part of the contractual arrangement, an apportionment is taken as the maintenance amount.

**g) Support**

Income derived from technical support services is recognised in the period in which the support or service is provided to the client.

**h) Software rental**

Income derived from the short term rental of software is spread across the period of rental.

**i) User training**

Income derived from the provision of training is recognised in the month during which that training is provided to the client. The same principle applies whether the training is supplied by in-house personnel or is delivered by a subcontractor.

**j) Barter transactions**

The company enters into sale agreements with certain customers on a barter basis whereby the consideration for the supply of software and services by the company is the receipt of certain other goods and services from the customer instead of the payment of cash.

These barter transactions are recognised in the financial statements on the basis of the fair value of the goods and services received, and where appropriate the income and expense is spread across the period during which the service is provided.

*Research and development*

The cost of research is charged to the statement of comprehensive income in the period in which it is incurred. However, if the development criteria specified in IAS 38 have been met, then the expense is capitalised.

*Leased assets*

Costs in respect of operating leases are charged on a straight line basis over the term of the lease in arriving at the operating loss before taxation.



## 1 Accounting policies (continued)

### *Pension costs*

Contributions to the group's defined contributions pension scheme are charged to the statement of comprehensive income in the period in which they become payable

### *Property, plant and equipment*

All property, plant and equipment is stated at cost less subsequent depreciation and impairment. The costs of the property, plant and equipment is their purchase price plus any incidental costs of acquisition. Depreciation commences at the point the asset is brought into use.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment equally over their expected useful lives. It is calculated at the following rates:

Leasehold improvements	-	Over the life of the lease
Fixtures and fittings	-	33% per annum
Equipment	-	33% to 50% per annum

If there is any indication that an asset's value is less than its carrying amount an impairment review is carried out. Where appropriate an asset's value is reduced to reflect this.

The residual values and useful economic lives of fixed assets are reviewed by management on an annual basis and revised to the extent required.

### *Intangible assets and amortisation*

The costs of significant groups of software licences are capitalised and then amortised over the useful economic lives of the software concerned. Amortisation is charged to administrative expenses.

The cost of intangible assets is their purchase price plus any incidental costs of acquisition. Amortisation begins from the time the asset is brought into use.

Software	-	20% to 33% per annum
----------	---	----------------------

### *Deferred taxation*

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 is accounted for using the statement of financial position 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 based on tax rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax and current tax are 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.

### *Investments*

Investments are stated at cost less any provision for impairment.

### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

## 1 Accounting policies (continued)

### Accounting estimates

For the preparation of these financial statements certain significant estimates had to be made. These are discussed within note 26.

### Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

### Other share-based payments

Where share-based payments are settled using fully-paid shares rather than options, the charge to the consolidated statement of comprehensive income is the fair value of the share issued.

### Foreign currencies

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the statement of financial position date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in a separate component of equity.

### Employee benefits

The company accounts for employee benefits in accordance with IAS 19. Under IAS 19 there is a requirement to recognise the monetary value of employee benefits accruing to employees but not yet settled, typically holiday pay. There is a requirement to account for the value of the liability for employee benefits to be paid in the future for services provided up to the reporting date.

### Finance cost

Finance costs of debt are recognised in the statement of comprehensive income over the term of such instruments at a constant periodic rate on the carrying amount.

### Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either 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. Financial assets and liabilities are measured at their historical cost.

### Standards issued but not yet effective

At the date of authorisation of these financial statements, the following standards, amendments to standards and interpretations, were in issue but not yet effective for the year ended 31 March 2010,

IFRS 1	First-time adoption of International Financial Reporting Standards
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash Assets to Owners
IAS 39	Eligible Hedged Items
IAS 27	Consolidated and separate financial statements

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the company when the relevant standards come into effect for periods commencing on or after 1 April 2010.

**2 Segmental reporting**

The directors consider that the group has one class of business, being the provision of innovation software and related professional services. These services are provided to clients in different geographical areas using resources shared between those markets. Therefore segmental information is presented in respect of the group's geographical segments relating to where customers are based. This is the primary basis of segmental reporting. The geographical segmental reporting reflects the group's management and internal reporting structure.

Segmental results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The location of customers is not significantly different to the location of assets.

	2010 £	2009 £
<b>Segmental revenue</b>		
United States of America	4,073,195	3,698,510
Rest of the World	477,451	882,299
	<u>4,550,646</u>	<u>4,580,809</u>
<b>Segmental result</b>		
United States of America	(1,275,536)	(67,984)
Rest of the World	(163,359)	(34,444)
	<u>(1,438,895)</u>	<u>(102,428)</u>
<b>Carrying amount:</b>		
United States of America		
Assets	2,666,212	2,380,269
Liabilities	(1,336,531)	(919,413)
Rest of the World		
Assets	749,117	553,034
Liabilities	(377,007)	(562,621)
	<u>1,701,791</u>	<u>1,451,269</u>
<b>Additions to property, plant and equipment, and intangible assets</b>		
United States of America	172,321	58,774
Rest of the World	77,126	136,160
	<u>249,447</u>	<u>194,934</u>
<b>Other:</b>		
Depreciation		
United States of America	79,811	49,422
Rest of the World	31,746	16,658
Amortisation		
United States of America	12,378	-
Rest of the World	57,901	42,865
Share option costs		
United States of America	34,937	53,650
Rest of the World	148,940	179,610
Other share-based payments		
Rest of the World	-	68,490

### 3 Staff costs

The average number of employees, including directors, during the year was

	2010 Number	2009 Number
Management and administration	36	31

Staff costs for the above persons were as follows

	£	£
Wages and salaries	2,292,460	2,064,887
Social security costs	202,867	177,341
Other pension costs	7,000	7,000
Benefits in kind	119,795	91,792
Share options costs (note 15)	183,877	233,260
Other equity-settled share-based payments (note 15)	-	68,490
	<u>2,805,999</u>	<u>2,642,770</u>

At the year end there was an accrual of £nil (2009 £16,000) in relation to share based payments yet to be converted into shares. A credit of £16,000 (2009 a credit of £20,000) has been made to the profit and loss account in respect of shares issued in the prior year.

### 4 Key management personnel compensation

	2010 Number	2009 Number
Key management personnel (non-directors)	-	1

  

Total emoluments of the directors and key management personnel are as follows	2010 £	2009 £
Short-term employee benefits	496,441	430,643
Compensation for loss of office	60,000	-
Post employment benefit	7,000	7,000
Share option costs	95,496	106,099
Other share-based payments	-	68,490
	<u>658,937</u>	<u>612,232</u>

Retirement benefits are accruing to one director under a defined contribution scheme (2009 one)

The directors' emoluments are shown in the remuneration report on page 10

**5 Operating loss**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
This has been arrived at after charging		
Auditor's remuneration		
Fees for the audit of Imaginatik plc	23,405	19,154
Fees for the audit of other group companies	700	700
Services relating to taxation	3,250	1,870
Other services	8,475	3,500
Operating lease costs		
Land and buildings	89,140	111,125
Depreciation	111,557	66,080
Amortisation	70,279	42,865
Foreign exchange losses/(gains)	3,615	(194,350)
Research and development	419,169	360,868
	<u>          </u>	<u>          </u>

**6 Finance costs**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
Bank interest receivable	2,257	9,228
Interest payable on bank loans and overdrafts	(329)	(2,611)
Other interest costs	(4,798)	(4,678)
	<u>          </u>	<u>          </u>
	(2,870)	1,939
	<u>          </u>	<u>          </u>

**7 Taxation on loss on ordinary activities**

	<b>2010</b>	<b>2009</b>
	<b>£</b>	<b>£</b>
UK corporation tax	-	-
Under provision in the prior year	7,215	-
	<u>          </u>	<u>          </u>
	7,215	-
Total current tax	-	-
Deferred tax	-	-
	<u>          </u>	<u>          </u>
	7,215	-
	<u>          </u>	<u>          </u>

## 7 Taxation on loss on ordinary activities (continued)

### (a) Factors affecting tax charge for the year

	2010 £	2009 £
Loss on ordinary activities before tax	(1,431,680)	(102,428)
Theoretical corporation tax (credit)/charge at 21% tax rate (2009 21%)	(300,653)	(21,510)
Effects of		
Expenses not deductible for tax purposes	57,650	61,249
Losses carried forward	230,567	(40,939)
Other timing differences	11,269	1,470
Capital allowances in excess of depreciation	1,167	(270)
Under provision in prior year	7,215	-
Current tax charge for the year	7,215	-

### (b) Factors that may affect future tax charges

Based on current capital investment plans, the group expects to be able to continue to claim capital allowances in excess of depreciation in future periods at a slightly lower level than in the current period

At 31 March 2010 the group had tax losses of £2,470,256 (2009 £1,372,318) carried forward and available for offset against future profits. No deferred tax asset has been recognised in respect of these losses as there is insufficient evidence that future profits will be sufficient for recovery of the losses.

## 8 Earnings per share

Basic loss per share (EPS) has been calculated in accordance with IAS 33 'Earnings per share'. The calculation of EPS is based on losses of £1,438,895 (2009 £102,428) and on a weighted average number of ordinary shares in existence during the year of 149,297,866 (2009 129,258,575).

The share options issued during the current and prior year are considered to be anti-dilutive, and therefore diluted EPS equals basic EPS.

## 9 Barter transactions

During the year barter transactions totalling £229,392 (2009 £246,000) were entered into by the Group. There was no profit or loss recorded on these transactions. At the year end there was deferred income balance of £5,900 (2009 £13,000) and deferred costs of £5,900 (2009 £13,000) in respect of barter transactions.

## 10 Investments held to maturity

### Unlisted investments

#### Company

Cost and net book value at 1 April 2009 and 31 March 2010

£

1

The company owns all of the issued share capital of Imaginatik (Goswell) Limited. That company, registered in England and Wales, owns certain intellectual property used by Imaginatik plc.

The company also owns all of the issued share capital of Imaginatik Inc. This company, incorporated in the United States of America, has not traded since its incorporation.

## 11 Property, plant and equipment

### Group and company

	Leasehold improvements £	Fixtures and fittings £	Equipment £	Total £
<b>Cost</b>				
At 1 April 2008	38,432	26,473	73,364	138,269
Additions	-	11,733	85,723	97,456
At 31 March 2009	38,432	38,206	159,087	235,725
Additions	31,342	19,956	120,750	172,048
At 31 March 2010	69,774	58,162	279,837	407,773
<b>Depreciation</b>				
At 1 April 2008	15,255	14,708	48,371	78,334
Provided for the year	15,373	9,833	40,874	66,080
At 31 March 2010	30,628	24,541	89,245	144,414
Provided for the year	10,588	9,640	91,329	111,557
At 31 March 2010	41,216	34,181	180,574	255,971
<b>Net book amount</b>				
At 1 April 2008	23,177	11,765	24,993	59,935
At 31 March 2009	7,804	13,665	69,842	91,311
At 31 March 2010	28,558	23,981	99,263	151,802

## 12 Intangible assets

	Total £
<b>Cost</b>	
At 1 April 2008	133,618
Additions	97,478
At 31 March 2009	231,096
Additions	77,399
At 31 March 2010	308,495
<b>Amortisation</b>	
At 1 April 2008	33,992
Provided for the year	42,865
At 31 March 2009	76,857
Provided for the year	70,279
At 31 March 2010	147,136
<b>Net book amount</b>	
At 1 April 2008	99,626
At 31 March 2009	154,239
At 31 March 2010	161,359

### 13 Trade and other receivables

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Trade receivables	1,590,323	1,590,323	1,503,824	1,503,824
Provision for doubtful debts	(222,691)	(222,691)	(106,420)	(106,420)
Amounts owed by group undertakings	-	317,622	-	344,152
Other receivables	26,473	26,473	12,734	12,734
Prepayments and accrued income	201,915	201,915	141,384	141,383
	<u>1,596,020</u>	<u>1,913,642</u>	<u>1,551,522</u>	<u>1,895,673</u>

Included in the above is the following debtor due in greater than one year

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Trade receivables	172,635	172,635	-	-
	<u>172,635</u>	<u>172,635</u>	<u>-</u>	<u>-</u>

### 14 Share capital

	2010 £	2009 £
<b>Allotted, called up and fully paid</b>		
132,671,917 ordinary shares of 0.0625p each	-	82,920
159,223,876 ordinary shares of 0.0625p each	99,515	-
	<u>99,515</u>	<u>82,920</u>

On 3 July 2009

- 247,793 new ordinary shares of 0.0625p each with a fair value of £15,693 were issued to directors and other staff in lieu of accrued salary

On 13 August 2009

- 26,266,666 new ordinary shares of 0.0625p each were placed with investors for a net cash consideration of £1,487,597. Issue costs relating to the above placing were £88,402, and have been deducted from the share premium account

On 20 August 2009

- 37,500 new ordinary shares of 0.0625p each were issued for a net cash consideration of £2,250. This was in relation to the exercise of share options



## 15 Equity-settled share-based payments

The company recognised total expenses of £183,877 (2009 £301,750) relating to equity settled share-based payment transactions during the year. This comprised of £183,877 (2009 £233,260) of share option charges, £nil (2009 £68,490) of other share-based payments.

### a) Issue of shares

247,793 (2009 2,030,960) fully-paid ordinary shares were issued to directors and employees on 3 July 2009 in respect of their past services to the company. A charge of £nil (2009 £62,372) has been made to the profit and loss account in respect of this share issue, this value being based on the mid-market value of shares at that date.

At the year end there was an accrual of £nil (2009 £14,000) in relation to share based payments yet to be converted into shares. A credit of £16,000 (2009 £20,000) has been made to the profit and loss account in respect of shares issued in the prior year.

### b) Share options

On 11 December 2006 the company entered into two share options schemes, one in the United Kingdom and one in the United States, which are described below.

Type of arrangement	Enterprise management incentive scheme- UK	Incentive stock option agreement - USA
Date of first grant	11 December 2006	11 December 2006
Total number granted since commencement	9,443,333	5,912,500
Contractual life	10 years	10 years
Vesting conditions	See below	See below

Options vest provided the employee who has been granted the option remains employed by the group at the earliest date that they may exercise the option. Each director or employee may exercise 50% of the options granted to them between two and ten years after the date of the grant. The remainder may be exercised between three and ten years after the date of the grant. Options are forfeited if the employee leaves the company before the options vest. The options will be settled by the issue and allotment of fully-paid ordinary shares.

In the prior year the exercise price of the share options were rebased. The new exercise price was 4p. The 2009 weighted average exercise price below refers to the rebased price. The impact of the rebasing was to increase the share based payment charge in the prior year by £52,926.

There was a single share option exercise during the year, which was at a share price of 6.0p.

Below are details of the transactions during the year.

	Number of options 2010	Weighted average exercise price 2010	Number of options 2009	Weighted average exercise price 2009
Outstanding at the start of the year	11,000,833	4p	10,867,500	4p
Granted during the year	10,700,000	6.88p	2,738,333	4p
Forfeited during the year	(3,677,500)	6.28p	(2,605,000)	4p
Exercised during the year	(37,500)	4p	-	-
Outstanding at end of year (see below)	17,985,833	5.61p	11,000,833	4p
Exercisable at end of year	9,249,762	4p	-	-

**15 Equity-settled share-based payments (continued)**

Outstanding share options at year end

2010	2010	2009	2009
Number of options	Exercise price	Number of options	Exercise price
10,010,833	4p	11,000,833	4p
6,100,000	6 75p	-	-
1,875,000	7 42p	-	-
	<b>2010</b>	<b>2009</b>	
Weighted average			
remaining contractual life	8 04 years	8 56 years	

There were 37,500 share options exercised during the year at a share price of 6 0p (2009 nil)

The estimated fair value of options granted during the year is £734,813 (2009 £13,199) The cost of options granted is spread over the option vesting period The charge for the year in relation to options held during the year is £138,296 (2009 £233,260)

The fair values were calculated using the Black-Scholes-Merton model The inputs into the model were as follows

Volatility	84%
Expected life	10 years
Share price at grant	4p
Exercise price	4p
Dividend yield	0%
Risk-free rate	2%

External independent experts were used in determining the expected volatility The figure used was determined by calculating the historical volatility of the share price of companies considered by the experts to be comparable to the company

**16 Reserves**

	Share premium account £	Share option reserve £	Retained earnings £
<b>Group</b>			
At 1 April 2009	2,429,936	336,775	(1,398,362)
Loss for the year	-	-	(1,438,895)
Issue of ordinary shares, net of expenses	1,488,945	-	-
Share option charge	-	183,877	-
	<u>3,918,881</u>	<u>520,652</u>	<u>(2,837,257)</u>
At 31 March 2010	3,918,881	520,652	(2,837,257)
<b>Company</b>			
At 1 April 2009	2,429,936	336,775	(1,054,210)
Loss for the year	-	-	(1,465,424)
Issue of ordinary shares, net of expenses	1,488,945	-	-
Share option charge	-	183,877	-
	<u>3,918,881</u>	<u>520,652</u>	<u>(2,519,634)</u>
At 31 March 2010	3,918,881	520,652	(2,519,634)

Expenses relating to share issues totalling £88,402 (2009 £20,083) were charged to the share premium account

**17 Reconciliation of movement in shareholders' funds**

<b>Group</b>	<b>2010 £</b>	<b>2009 £</b>
Issue of shares	1,505,540	264,416
Loss for the year	(1,438,895)	(102,428)
Share option charge	183,877	233,260
Other share-based payments	-	-
<b>Increase in shareholders' funds in the year</b>	<b>250,522</b>	<b>395,248</b>
Opening shareholders' funds	1,451,269	1,056,021
<b>Closing shareholders' funds</b>	<b>1,701,791</b>	<b>1,451,269</b>
<b>Company</b>	<b>2010 £</b>	<b>2009 £</b>
Issue of shares	1,505,540	264,416
Loss for the year	(1,465,424)	(136,784)
Share option charge	183,877	233,260
Other share-based payments	-	-
<b>Increase in shareholders' funds in the year</b>	<b>223,993</b>	<b>360,892</b>
Opening shareholders' funds	1,795,421	1,434,529
<b>Closing shareholders' funds</b>	<b>2,019,414</b>	<b>1,795,421</b>

**18 Non-current liabilities**

	<b>Group 2010 £</b>	<b>Company 2010 £</b>	<b>Group 2009 £</b>	<b>Company 2009 £</b>
Deferred income	230,307	230,307	-	-

**19 Current liabilities**

	<b>Group 2010 £</b>	<b>Company 2010 £</b>	<b>Group 2009 £</b>	<b>Company 2009 £</b>
Bank loans	-	-	19,713	19,713
Trade payables	124,072	124,072	149,251	149,251
Taxation and social security	30,156	30,156	93,019	93,019
Other payables	144,279	144,279	100,633	100,633
Accruals and deferred income	1,184,724	1,184,724	1,119,418	1,119,418
	<b>1,483,231</b>	<b>1,483,231</b>	<b>1,482,034</b>	<b>1,482,034</b>

## 20 Pensions

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group and company in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund.

The total pension charge for the year was £7,000 (2009 £7,000)

Contributions totalling £66,352 (2009 £59,352) were payable to the scheme at the end of the year and are included in other payables.

## 21 Commitments under operating leases

As at 31 March 2010 the group had non-cancellable operating leases as set out below

	2010 Land and buildings £	2009 Land and buildings £
Minimum future payments		
Due within one year	64,508	45,583
Later than one year and not later than five years	193,523	-
	<u>258,031</u>	<u>45,583</u>

## 22 Reconciliation of operating loss to net cash (outflow)/inflow from operating activities

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
<b>Operating loss</b>	(1,428,810)	(1,462,554)	(104,367)	(138,723)
Depreciation of tangible fixed assets	111,557	111,557	66,080	66,080
Amortisation of intangible fixed assets	70,279	70,279	42,865	42,865
Share option charge	183,877	183,877	233,260	233,260
Corporation tax paid	(7,215)	-	-	-
Net interest (paid)/ received	(2,870)	(2,870)	1,939	1,939
<b>Operating cash flows before movements in working capital</b>	<u>(1,073,182)</u>	<u>(1,099,711)</u>	<u>239,777</u>	<u>205,421</u>
Increase in trade and other receivables	(44,498)	(17,969)	(666,036)	(631,680)
Increase in payables	<u>251,217</u>	<u>251,217</u>	<u>427,040</u>	<u>427,040</u>
<b>Net movement in working capital</b>	<u>206,719</u>	<u>233,248</u>	<u>(238,996)</u>	<u>(204,640)</u>
<b>Net cash from operating activities</b>	<u>(866,463)</u>	<u>(866,463)</u>	<u>781</u>	<u>781</u>

## 23 Financial instruments

The group's financial instruments comprise cash, trade receivables, trade payable and loans, that arise directly from its operations. The main purpose of these financial instruments is to finance the group's operations.

### Risk management

The group is exposed through its operations to the following financial risks

- credit risk,
- foreign exchange risk, and
- liquidity risk

In common with all other businesses, 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.

There have been no 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.

The group has not given a sensitivity analysis for any of the risks as there would be no material change to results of the carrying value of assets or liabilities if the market risks changes.

### Principal financial instruments

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

- trade receivables,
- cash at bank,
- bank overdrafts,
- trade and other payables,
- floating-rate bank loans, and
- loans from related parties

### General objectives, policies and processes

The board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The board receives monthly reports from the chief Financial Officer 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.

#### *Interest rate risk*

At present the directors do not believe that the group has significant interest rate risk and consequently does not hedge against such risk. Cash balances earn interest at variable rates, offsetting the risk of variable rate borrowings.

#### *Interest-bearing financial assets*

The group's financial assets as at 31 March 2010 comprised cash at bank of £1,506,148 (2009 £1,136,231). Interest is paid on cash at floating rates in line with prevailing market rates.

**23 Financial instruments (continued)***Interest-bearing financial liabilities*

The group's financial liabilities as at 31 March 2010 comprised a floating rate bank loan of £nil (2009 £19,173)

*Loans from related parties*

On occasion the company borrows money from related parties which has no interest charge in relation to the balance. The balance at year end was £42,901 (2009 £42,901)

*Credit risk*

Credit risk is the risk of financial loss to the group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings take into account local business practices.

The group has established a credit policy under which each new customer is analysed individually for creditworthiness before the group's standard payment and delivery terms and conditions are offered.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. To manage this the group has made sure that they use reputable banks and financial instruments.

The group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if a sufficient concentration occurs.

The group's chief financial officer monitors the utilisation of the credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties other than what has already been provided for.

*Foreign exchange risk*

Foreign exchange risk arises because the group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the group companies are operating. Although its global market penetration reduces the group's operational risk in that it has diversified into several markets, the group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. Only in exceptional circumstances will the group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

The group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily US dollars or pound sterling) with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the group.

<i>Currency profile</i>		<b>2010</b>	<b>2009</b>
		<b>£</b>	<b>£</b>
<i>Financial assets</i>			
Cash -	Sterling	398,552	52,589
	Euro	-	1
	US dollar	1,107,596	1,083,641
Trade receivables -	Sterling	22,925	222,958
	US dollar	1,344,707	1,123,051
	Euro	-	51,395
<i>Financial liabilities</i>			
Trade payables -	Sterling	65,203	42,552
	US dollars	54,063	106,136
	Euro	4,806	563
Bank loans -	Sterling	-	19,173
Loans from related parties -	Sterling	47,901	42,901

## 23 Financial instruments (continued)

### *Liquidity risk*

Liquidity risk arises from the group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due.

The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. At the statement of financial position date, these projections indicated that the group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

There were no undrawn facilities at 31 March 2010 or 31 March 2009.

### *Fair value of financial assets and liabilities*

The directors believe that the fair value of financial assets and liabilities approximates to the carrying value.

The assumptions used to estimate current fair values of debt and other financial instruments are summarised below:

- i) For cash and short term borrowings the book value approximates to fair value because of their short maturities, and
- ii) Long term debt is at floating rates and therefore the book value currently approximates to fair value.

## 24 Related party transactions

M C Turrell, A K Wainwright and S K Taylor are all related parties by virtue of their directorships at the year end. A Wainwright is a related party by virtue of being a connected person with A K Wainwright. Y U Lindow is a related party by virtue of being a connected person with M C Turrell. The directors' emoluments are shown in the remuneration report on page 10.

The company has paid £6,252 in the year to 31 March 2010 (2009 £9,396) in respect of leasing commitments entered into by M C Turrell in his personal capacity. These commitments consist of a motor vehicle and offices for utilisation by the company in carrying on its operating activities.

During the year Imaginatik plc had transactions with CYL Central Beteiligungsgesellschaft mbH & Innovationsmanagement KG, a company 100% owned by Y U Lindow. £104,788 (2009 £100,000) was paid to the company for consultancy during the year which included £4,788 in issued share capital. £nil (2009 £70,000) was paid in relation to software during the year. At the year end £8,333 (2009 £8,333) was outstanding.

The following transactions occurred during the year and at the end of the year the following amounts were due to related parties:

	2010 £	2009 £
<b>A K Wainwright</b>		
Closing balance	42,901	42,901
Maximum liability	42,901	91,212
<b>A Wainwright unpaid pension contributions</b>	66,352	59,352

The company made purchases of services from Imaginatik (Goswell) Limited in the year totalling £34,130 (2009 £34,356). At 31 March 2010 Imaginatik (Goswell) Limited owed the company £317,622 (2009 £344,152).

**25 Controlling party**

The directors no longer believe that a controlling party exists

**26 Critical accounting estimates and judgement**

The group makes estimates and assumptions concerning the future. These estimates and judgements are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The main estimate used relates to the use of the Black-Scholes-Merton model. This has been used to value the share option scheme. A number of estimated variables have been input into the model (as seen in note 15) and as a result, could be expected to change over time. The percentage of options expected to vest is an uncertain amount, and certain factors are linked to whether this occurs.