Financial statements
Espresso Group Limited

For the Year Ended 31 July 2011

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Company No. 04075079

Contents

Report of the directors

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

Principal activities and business review

The principal activity of the company during the year was to serve as the parent of Espresso Education Limited, Education Media Delivery Limited and Espresso Education Inc, a group that engages in the production and distribution of digital education programming

2011 was the year in which Espresso significantly stepped up its investment in the development of its US business The directors are delighted both with the progress made in product development and the initial market response to the Espresso Elementary service, as well as the continued improvement in profitability of the UK business during difficult trading conditions The results for the year and financial position of the company are shown in the attached financial statements and are discussed further in the business review below

	Year Ended July 31, 2011 £Millions	Year Ended July 31, 2010 £Millions	Change %	Change £Millions
Turnover	13 4	13 3	1%	0 1
Group Operating (Loss)/Profit	(0 6)	0 1	N/A	(0 6)
Core UK Operating Profit/(Loss)	1 1	0 6	68%	0 4
US Operating (Loss)	(1 6)	(0 6)	(175%)	(1 0)

Business review

At this stage of the group's development, the majority of revenue continues to come from the UK schools market, but this year has seen a significant shift in developing an international business model which has benefited from investment in enhanced delivery platforms and technologies

In the UK, the reduction in several funding streams and Local Authority budgets in 2010 continued to create a period of significant uncertainty in the first half of the academic year as schools tried to understand the implications on their funding Furthermore, central purchases effectively disappeared and some schools found themselves trying to fund resources that previously had been purchased on their behalf However, in the second half of the year, school spending stabilised and reverted to historical levels as schools had better visibility of and confidence in budgets

Despite these challenges, UK retention levels were maintained at their historically high levels and recurring revenues grew marginally during a period when school spending on educational resources generally saw a significant decline At the same time, profitability in the UK business grew significantly as one-time costs associated with replacing obsolete infrastructure in schools came to an end and the business benefited from operational efficiencies achieved across all functional areas as a consequence of a stable customer base

Away from the UK, the directors are pleased to report the growth in the Swedish service with revenues and school counts having doubled year on year We believe that this demonstrates the adaptability of the core Espresso service to international markets and is indicative of a global demand for digital resources in schools

Last year, the directors took the decision to accelerate international expansion plans in order to grow revenue and capitalise on new opportunities, particularly in the USA Espresso Education Inc was established and this year saw a sizeable increase in investment to £1 6m (2010 £0 6m) which represented a milestone in the development of a localised, standards aligned, centrally delivered USA service, as well as the development of a high quality sales and marketing infrastructure Despite the US education market having its own funding challenges, Espresso has now secured 600 new schools in the US and the directors anticipate strong growth in 2012 as we grow market awareness of our product and brand at the bottom of the current spending cycle in the US

As stated in last year's directors' report, this initiative was anticipated to have the effect of depressing group profits in the initial investment phase before the new subscriber base had been established in subsequent years The underlying profitability and cash generative nature of the UK business has meant that this has been funded internally It is currently anticipated that the level of investment in the US service in 2012 will broadly level out

The group closed the financial year with current assets of £7 4m against the same balance in 2010 Despite significant investment in the USA business, cash balances were broadly flat at £4 2m compared to £4 1m at July 2010, which is reflective of the cash generative nature of the UK business As such, it is anticipated that the company will repay its last outstanding loan note and as a consequence will be entirely debt free during the current financial year

The directors monitor the growth of the business by reference to certain key financial and non-financial performance indicators Financial indicators include revenues and earnings before interest, tax, depreciation and amortisation, FRS 20 charges and non-recurring expenses

	Year Ended July 31, 2011 £Millions	Year Ended July 31, 2010 £Millions	Change %	Change £Millions
Turnover	13 4	13 3	1%	0 1
Earnings before interest, tax, amortisation, FRS20 charges and non recurring items (excluding US investment)	2 6	1 8	44%	0 8

Non-financial indicators include the number of schools under contract and subscription renewal rates The subscription retention rate averaged 93% in the current year and was broadly consistent with prior year measurements These key performance indicators are constantly monitored by management and reported to the Board of Directors on a monthly basis

Although the market in the UK is in a period of transition, the directors remain confident in the underlying strength of its services and are very encouraged by the speed of progress internationally It is anticipated that the investment in international projects will continue to be dilutive to profits in 2012 but will provide a platform for future long-term profitable growth in the years beyond

Results and dividends

The loss for the year, after taxation, amounted to £1,295,985 The directors have not recommended a dividend

Financial risk management objectives and policies

Business risks
The company's strategy and operating performance are subject to certain risks and uncertainties which the directors have set forth below

As discussed above, the UK and to a large extent the markets outside of the UK, where Espresso operates for the supply of educational services and materials have undergone a great deal of uncertainty as to the level of funding available to schools In order to mitigate these risks, the company continues to enhance its products and services through the use of new technologies and delivery mechanisms and invests significant resources in training and support services so as to maximize the value proposition it delivers to schools Further, international expansion opportunities allow the business to leverage existing IPR in the creation of new revenue streams that are not dependent on the UK funding or policy changes

The company's business is dependent on the maintenance of key third party relationships In particular, the cessation of certain supplier and distribution arrangements could have an adverse impact on the business The directors are not aware that any supplier or distribution arrangements will, or are likely to, cease and the company takes all reasonable precautions to ensure the stability of these agreements and the overall reputation of the company but cannot ensure that these relationships continue without the continued goodwill of third parties

As part of its long-established arrangements for delivering digital data to schools via electronic transmission, the company has positioned computer servers inside server farms owned and operated by third parties The company depends on the third parties continuing to provide effective services in order to deliver its services to schools in a timely and efficient manner

Financial risks
The company uses various financial instruments including cash, loans, equity investments and various other items such as trade debtors and trade creditors that arise from operations for the purpose of financing the company's operations The existence of these financial instruments exposes the company to certain financial risks, including credit risk and liquidity risk

The company's principal credit risk arises from trade debtors In order to manage and mitigate credit risk, the directors have set credit limits for customers and monitor these limits in conjunction with payment history Historically credit risk has been low, given the nature of the customer base

As the company moves into international markets it will be subject to foreign currency risk, notably to movement in the US dollar rate The directors will manage this risk through a variety of foreign currency instruments with a suitably registered third party supplier

Directors

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

Mr L Bronze
Mr T Evans
Mr J Hardie
Mr R McGrath
Mr AJ Stringer
Mr S Veale
Mr T Hempenstall
Mr D Cockburn
Ms J Benson

Ms J Benson was appointed as a director on 15 December 2010

Mr D Jones-Owen was appointed as Company secretary on 15 December 2010

Going concern

The Board of Directors undertake regular reviews of the group's liquidity to ensure it has sufficient headroom to meet its working capital demands This review includes cash flow forecasts and trading results of a minimum of 12 months Given the strength of the group's balance sheet and cash position, the Board continue to consider it appropriate to prepare the financial statements on a going concern basis

Directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom 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 company and the group and of the profit or loss of the group for that year In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements 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 will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

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

Donations

The group made no charitable donations, nor did it incur political expenditure

Auditor

Grant Thornton UK LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006

BY ORDER OF THE BOARD

Mr D Jones-Owen
Secretary 27|10|2011

Grant Thornton

Independent auditor's report to the members of Espresso Group Limited

We have audited the group and parent company financial statements ("the financial statements") of Espresso Group Limited for the year ended 31 July 2011 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 6, 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 website 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 parent company's affairs as at 31 July 2011 and of the group's loss for the year then ended,
- have been properly prepared in accordance with United Kingdom 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 report of the directors for the financial year for which the financial statements are prepared is consistent with the financial statements

Independent auditor's report to the members of Espresso Group Limited (continued)

Matters on which we are required to report by exception

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

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

Grant Thornton UK LLP

NICHOLAS PAGE (Senior Statutory Auditor)
For and on behalf of
GRANT THORNTON UK LLP
STATUTORY AUDITOR
CHARTERED ACCOUNTANTS

London

27/10/1.

Accounting policies

Basis of accounting

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and all group undertakings These are adjusted, where appropriate, to conform to group accounting policies Acquisitions are accounted for under the acquisition method and goodwill on consolidation is capitalised and written off over five years from the year of acquisition The results of companies acquired or disposed of are included in the profit and loss account after or up to the date that control passes respectively As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group financial statements by virtue of section 408 of the Companies Act 2006

Turnover

The turnover shown in the profit and loss account consists of the following revenue streams and is exclusive of Value Added Tax

Subscription revenue
Revenue is recognised over the period of the contract

Installation revenue
Revenue is recognised when installation has taken place

Training
Revenue is recognised when the service has been delivered and invoiced

Commissioned content
Revenue is recognised when the content module is complete and made available to the customer

Goodwill

Goodwill arising on consolidation and purchased goodwill, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life

Intangible assets

Intellectual property rights
Intellectual property rights comprises externally acquired licences, internally generated digital content and technology

Externally acquired licences are included at cost and amortised on straight-line basis over their useful economic lives

The cost of internally generated digital content and technology is recognised as an intangible asset and is subsequently measured and amortised in the same way as externally acquired licences

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	-	20 years on cost
Other intangibles	-	3-7 years on cost

Fixed assets

All fixed assets are initially recorded at cost

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% on cost
Fixtures & Fittings	-	20% on cost
Equipment	-	33% on cost

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 is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Foreign currencies

Monetary 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

Current assets and liabilities in foreign currencies are translated into sterling at the year-end rates of exchange Translation differences are dealt with in the profit and loss account

The accounts of the overseas subsidiaries and associated undertakings are translated into sterling at year-end rates of exchange and the differences on exchange on the opening equity investment are taken directly to reserves

Share-based payments

The group issues equity-settled and cash-settled share-based payments to certain employees (including directors) Equity-settled share-based payments are measured at fair value at the date of grant The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, together with a corresponding increase in equity, based upon the group's estimate of the shares that will eventually vest

Fair value is measured using an appropriate option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities Financial liabilities are presented as such in the balance sheet Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account Finance costs are calculated so as to produce a constant rate of return on the outstanding liability

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument Dividends and distributions relating to equity instruments are debited direct to equity

Profit and loss account

	Note	2011 £	2010 £
Group turnover	1	**13,390,257**	13,278,885
Cost of sales		**(5,508,404)**	(5,459,822)
Gross profit		**7,881,853**	7,819,063
Other operating charges *(including non recurring restructuring costs of 2011 £147,000)*	2	**(8,454,934)**	(7,779,966)
Other operating income	3	**22,376**	11,094
Operating (loss)/profit	4	**(550,705)**	50,191
Interest receivable	7	**5,589**	4,524
Interest payable and similar charges	8	**(118,498)**	(57,391)
Loss on ordinary activities before taxation		**(663,614)**	(2,676)
Tax on loss on ordinary activities	9	**(632,371)**	(286,520)
Loss for the financial year	10	**(1,295,985)**	(289,196)

All of the activities of the group are classed as continuing

The company has taken advantage of section 408 of the Companies Act 2006 not to publish its own Profit and Loss Account

Group balance sheet

	Note	2011 £	2010 £
Fixed assets			
Intangible assets	11	**7,094,690**	7,274,352
Tangible assets	12	**1,113,220**	1,011,903
		8,207,910	8,286,255
Current assets			
Stocks	14	**57,063**	54,492
Debtors	15	**3,092,801**	3,235,083
Cash at bank		**4,226,062**	4,148,357
		7,375,926	7,437,932
Creditors amounts falling due within one year	17	**(9,662,245)**	(9,106,550)
Net current liabilities		**(2,286,319)**	(1,668,618)
Total assets less current liabilities		**5,921,591**	6,617,637
Provisions for liabilities			
Other provisions	18	**(133,078)**	(125,357)
		5,788,513	6,492,280
Capital and reserves			
Called-up equity share capital	23	**4,971,764**	4,971,314
Share premium account	24	**9,234,477**	9,234,477
Share options reserve	24	**1,933,763**	1,414,857
Other reserves	24	**(769,390)**	(769,390)
Profit and loss account	24	**(9,582,101)**	(8,358,978)
Shareholders' funds	25	**5,788,513**	6,492,280

These financial statements were approved by the directors and authorised for issue on 27\10\2011, and are signed on their behalf by

Mr R McGrath

Balance sheet

	Note	2011 £	2010 £
Fixed assets			
Investments	13	**6,641**	6,641
Current assets			
Debtors	15	**7,725,745**	7,028,725
Cash at bank		**69,435**	60,718
		7,795,180	7,089,443
Creditors amounts falling due within one year	17	**(2,300,019)**	(1,286,878)
Net current assets		**5,495,161**	5,802,565
Total assets less current liabilities		**5,501,802**	5,809,206
Capital and reserves			
Called-up equity share capital	23	**4,971,764**	4,971,314
Share premium account	24	**9,234,477**	9,234,477
Share options reserve	24	**1,260,256**	898,421
Other reserves	24	**(769,390)**	(769,390)
Profit and loss account	24	**(9,195,305)**	(8,525,616)
Shareholders' funds		**5,501,802**	5,809,206

These financial statements were approved by the directors and authorised for issue on 27/10/2011, and are signed on their behalf by

Mr R McGrath

Company Registration Number 04075079

Group cash flow statement

	Note	2011 £	2010 £
Net cash inflow from operating activities	26	**1,642,098**	3,277,674
Returns on investments and servicing of finance	26	**(112,909)**	(52,867)
Capital expenditure and financial investment	26	**(1,451,934)**	(1,984,789)
Cash inflow before financing		**77,255**	1,240,018
Financing	26	**450**	(278,999)
Increase in cash	26	**77,705**	961,019

Other primary statements

Statement of total recognised gains and losses

	2011	2010
	£	£
Loss for the financial year attributable to the shareholders of the parent company	**(1,295,985)**	(289,196)
Exchange differences on retranslation of net assets of subsidiary undertakings	**72,862**	(7,876)
Total gains and losses recognised for the year	**(1,223,123)**	(297,072)

The accompanying accounting policies and notes form part of these financial statements.

Notes to the financial statements

1 Turnover

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

	2011	2010
	£	£
United Kingdom	**12,401,535**	12,789,183
Overseas	**988,722**	489,702
	13,390,257	13,278,885

2 Other operating charges

	2011	2010
	£	£
Administrative expenses	**8,454,934**	7,779,966

3 Other operating income

	2011	2010
	£	£
Other operating income	**22,376**	11,094

4 Operating (loss)/profit

Operating (loss)/profit is stated after charging/(crediting)

	2011	2010
	£	£
Amortisation of intangible assets	**1,208,475**	1,057,257
Depreciation of owned fixed assets	**321,804**	173,466
Loss on disposal of fixed assets	**-**	4,288
Operating lease costs		
- Other	**255,310**	243,817
Net loss/(profit) on foreign currency translation	**69,206**	(19,543)
Auditor's remuneration - audit of the financial statements	**7,500**	7,200
Auditor's remuneration - other fees	**38,700**	37,300

	2011	2010
	£	£
Auditor's remuneration - audit of the financial statements	7,500	7,200

Auditor's remuneration - other fees

- Local statutory audit of subsidiary	28,300	27,300
- Taxation services	10,400	10,000
	38,700	37,300

5 Particulars of employees

The average number of staff employed by the group during the financial year amounted to

	2011	2010
	No	No
Number of production staff	41	34
Number of finance and administrative staff	13	14
Number of sales and marketing staff	44	33
Number of customer operations and training staff	23	25
	121	106

The aggregate payroll costs of the above were

	2011	2010
	£	£
Wages and salaries	4,853,172	5,565,871
Social security costs	563,136	593,781
Other pension costs	–	4,947
Equity-settled share-based payments	518,908	234,236
	5,935,216	6,398,835

6 Directors

Remuneration in respect of directors was as follows

	2011	2010
	£	£
Remuneration receivable	674,936	1,074,176

Remuneration of highest paid director

	2011	2010
	£	£
Total remuneration (excluding pension contributions)	158,600	419,206

7 Interest receivable

	2011	2010
	£	£
Bank interest receivable	5,589	4,524

8 Interest payable and similar charges

	2011	2010
	£	£
Interest payable on bank borrowing	118,498	57,391

9 Taxation on ordinary activities

Analysis of charge in the year

	2011	2010
	£	£
Deferred tax		
Origination and reversal of timing differences	530,449	286,520
Adjustment in respect of previous years		
Deferred tax	101,922	-
Total deferred tax (note 16)	632,371	286,520

Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 27 33% (2010 - 28%)

	2011	2010
	£	£
Loss on ordinary activities before taxation	(663,614)	(2,676)
Loss on ordinary activities by rate of tax	(181,354)	(749)
Expenses not deductible for tax purposes	185,693	36,013
Capital allowances for period in excess of depreciation	(46,700)	(11,297)
Utilisation of tax losses and tax losses arising	42,361	(121,478)
Other timing differences	-	9,470
Difference in tax rates	-	88,041
Total current tax	-	-

10 Loss attributable to members of the parent company

The loss dealt with in the financial statements of the parent company was £(669,689) (2010 - £(635,097))

11 Intangible fixed assets

Group	Goodwill	Intellectual property rights	Total
	£	£	£
Cost			
At 1 August 2010	5,185,449	6,112,883	11,298,332
Additions	–	1,028,813	1,028,813
At 31 July 2011	5,185,449	7,141,696	12,327,145
Amortisation			
At 1 August 2010	864,241	3,159,739	4,023,980
Charge for the year	259,273	949,202	1,208,475
At 31 July 2011	1,123,514	4,108,941	5,232,455
Net book value			
At 31 July 2011	4,061,935	3,032,755	7,094,690
At 31 July 2010	4,321,208	2,953,144	7,274,352

12 Tangible fixed assets

Group	Leasehold Property	Fixtures & Fittings	Equipment	Total
	£	£	£	£
Cost				
At 1 August 2010	420,299	154,836	1,193,348	1,768,483
Additions	12,619	35,756	374,746	423,121
At 31 July 2011	432,918	190,592	1,568,094	2,191,604
Depreciation				
At 1 August 2010	14,010	10,158	732,412	756,580
Charge for the year	42,852	35,328	243,624	321,804
At 31 July 2011	56,862	45,486	976,036	1,078,384
Net book value				
At 31 July 2011	376,056	145,106	592,058	1,113,220
At 31 July 2010	406,289	144,678	460,936	1,011,903

13 Investments

Company	Group companies £
Cost	
At 1 August 2010 and 31 July 2011	6,641
Net book value	
At 31 July 2011 and 31 July 2010	6,641

	Country of incorporation	Holding	Proportion of voting rights and shares held	Nature of business
Subsidiary undertakings				
All held by the company				
Espresso Education Limited	England	Ordinary shares	100%	Creation of Digital Education Programming
Espresso Media Delivery Limited	England	Ordinary shares	100%	Delivery of Digital Education Programming
Espresso Education Inc	USA	Ordinary shares	100%	Creation of Digital Education Programming

14 Stocks

	The group 2011	2010	The company 2011	2010
	£	£	£	£
Finished goods	57,063	54,492	–	–

15 Debtors

	The group 2011	2010	The company 2011	2010
	£	£	£	£
Trade debtors	1,831,190	1,538,559	–	–
Amounts owed by group undertakings	–	–	7,697,420	7,019,739
VAT recoverable	–	–	10,720	5,687
Other debtors	212,529	216,248	–	–
Deferred taxation (Note 16)	709,017	1,341,388	–	–
Prepayments and accrued income	340,065	138,888	17,605	3,299
	3,092,801	3,235,083	7,725,745	7,028,725

16 Deferred taxation

The movement in the deferred taxation asset during the year was

	The group		The company	
	2011	2010	**2011**	2010
	£	£	**£**	£
Asset brought forward	**1,341,388**	1,627,908	**-**	-
Decrease in asset	**(632,371)**	(286,520)	**-**	-
Asset carried forward	**709,017**	1,341,388	**-**	-

The group's asset for deferred taxation consists of the tax effect of timing differences in respect of

Group	2011		2010	
	Provided	**Unprovided**	Provided	Unprovided
	£	**£**	£	£
Excess of depreciation over taxation allowances	**97,922**	**-**	154,042	-
Tax losses available	**605,901**	**1,289,716**	1,061,171	985,429
Other timing differences	**5,194**	**-**	126,175	-
	709,017	**1,289,716**	1,341,388	985,429

The elements of the company's deferred taxation, which result in a nil balance at the end of the year, together with details of other amounts not provided for, are as follows

Company	2011		2010	
	Provided	**Unprovided**	Provided	Unprovided
	£	**£**	£	£
Tax losses available	**-**	**725,773**	-	827,899

17 Creditors: amounts falling due within one year

	The group		The company	
	2011	2010	2011	2010
	£	£	£	£
Short term borrowings	**1,100,000**	1,100,000	**1,100,000**	1,100,000
Trade creditors	**632,409**	846,759	**58,420**	36,224
Amounts owed to group undertakings	**–**	–	**1,029,390**	–
Other taxation and social security	**654,160**	525,643	**–**	–
Other creditors	**31,860**	31,175	**–**	–
Accruals and deferred income	**7,243,816**	6,602,973	**112,209**	150,654
	9,662,245	9,106,550	**2,300,019**	1,286,878

There is one class of other loans (2010 one)

'E' loan notes There are £1,100,000 of 'E' loan notes The interest is variable and the loan is secured by a debenture over all current and future assets The loan notes are repayable to Beringea LLP

18 Other provisions

	The group		The company	
	2011	2010	2011	2010
	£	£	£	£
Other provisions:				
At 1 August 2010	**125,357**	-	-	-
Movement in dilapidations provision	**7,721**	125,357	-	-
At 31 July 2011	**133,078**	125,357	-	-

19 Share-based payments

Equity-settled share-based payments

The group has a share option scheme for certain employees (including directors) Options are exercisable at a price equal to the average market price of the company's shares on the date of grant The options do not vest until an exit event and are subject to certain realisation value criteria Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows

Date of Issue	Estimated fair value	Strike price per share	Expected volatility	Risk free rate	Expected term (years)
February 2005	£1,791,959	£0 030	30%	4 5%	7 4
December 2006	£621,713	£0 077	30%	4 9%	5 7
July 2007	£358,574	£0 209	30%	5 8%	5 0
December 2008	£124,587	£0 096	35%	2 2%	3 6
May 2010	£664,818	£0 0001	35%	1 6%	3 2
December 2010	£181,791	£0 0404	35%	1 22%	2 62

The estimated fair values were calculated using the stochastic pricing model The inputs into the model are set out above Expected volatility was calculated by discounting the average volatility of a number of listed groups in the same market place as the company The risk free rate of return is the yield at grant date of UK government gilts with a commensurate term to the expected share option term

During the year, share options with a fair value of £26,849 (2010 £67,766) were forfeited and share options with a fair value of £60,957 (2010 £186,631) vested Of this, 1,500,000 (2010 1,882,966) options were exercised at a weighted average price of £0 0001 (2010 £0 17391) per share

The group recognised a total charge of £518,908 (2010 £234,237) related to equity-settled share-based payment transactions during the year

20 Commitments under operating leases

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

The group	2011		2010	
	Land and buildings	Other items	Land and buildings	Other items
	£	£	£	£
Operating leases which expire				
Within 2 to 5 years	**330,769**	**1,955**	330,769	1,955

21 Contingencies

The directors have confirmed that there were no contingent liabilities which should be disclosed at 31 July 2011 or 31 July 2010

22 Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8

23 Share capital

Authorised share capital

	2011	2010
	£	£
36,901,515 Ordinary shares of £0 10 each	**3,690,152**	3,690,152
12,727,412 Ordinary A shares of £0 10 each	**1,272,741**	1,272,741
99,529,985 Ordinary B shares of £0 0001 each	**9,953**	9,953
35,000,000 Ordinary C shares shares of £0 0001 each	**3,500**	3,500
	4,976,346	4,976,346

Allotted, called up and fully paid

	2011		2010	
	No	£	No	£
36,901,515 Ordinary shares of £0 10 each	**36,901,515**	**3,690,152**	36,901,515	3,690,152
12,727,412 Ordinary A shares of £0 10 each	**12,727,412**	**1,272,741**	12,727,412	1,272,741
84,209,433 Ordinary B shares of £0 0001 each	**84,209,433**	**8,421**	84,209,433	8,421
4,500,000 Ordinary C shares of £0 0001 each	**4,500,000**	**450**	-	-
	138,338,360	**4,971,764**	133,838,360	4,971,314

During the year 4,500,000 ordinary 'C' shares were issued at par for cash of £450

24 Reserves

Group	Share premium account	Capital redemption reserve	Share options reserve	Profit and loss account
	£	£	£	£
At 1 August 2010	9,234,477	(769,390)	1,414,857	(8,358,978)
Loss for the year	–	–	–	(1,295,985)
Foreign exchange reserve	–	–	–	72,862
Recognition of equity-settled share-based payments in the year	–	–	518,906	–
At 31 July 2011	9,234,477	(769,390)	1,933,763	(9,582,101)

24 Reserves (continued)

Company	Share premium account	Capital redemption reserve	Share options reserve	Profit and loss account
	£	£	£	£
At 1 August 2010	9,234,477	(769,390)	898,421	(8,525,616)
Loss for the year	–	–	–	(669,689)
Recognition of equity-settled share-based payments in the year	–	–	361,835	–
At 31 July 2011	9,234,477	(769,390)	1,260,256	(9,195,305)

25 Reconciliation of movements in shareholders' funds

	2011	2010
	£	£
Loss for the financial year	(1,295,985)	(289,196)
New equity share capital subscribed	450	167
Premium on new share capital subscribed	–	49,952
Premium on purchase of own ordinary shares	–	(329,118)
Foreign exchange reserve	72,862	(7,876)
Recognition of equity-settled share-based payments in the year	518,906	234,236
Net reduction to shareholders' funds	(703,767)	(341,835)
Opening shareholders' funds	6,492,280	6,834,115
Closing shareholders' funds	5,788,513	6,492,280

26 Notes to the cash flow statement

Reconciliation of operating (loss)/profit to net cash inflow from operating activities

	2011	2010
	£	£
Operating (loss)/profit	(550,705)	50,191
Amortisation	1,208,475	1,057,257
Depreciation	321,804	173,466
Loss on disposal of fixed assets	–	4,288
(Increase)/decrease in stocks	(2,571)	5,227
(Increase)/decrease in debtors	(490,089)	1,286,284
Increase in creditors	555,693	349,244
Loss/(gain) on foreign currency retranslation	72,862	(7,876)
Equity-settled share-based payments	518,908	234,236
Increase in provisions	7,721	125,357
Net cash inflow from operating activities	1,642,098	3,277,674

26 Notes to the cash flow statement (continued)

Returns on investments and servicing of finance

	2011 £	2010 £
Interest received	5,589	4,524
Interest paid	(118,498)	(57,391)
Net cash outflow from returns on investments and servicing of finance	(112,909)	(52,867)

Capital expenditure and financial investment

	2011 £	2010 £
Payments to acquire intangible fixed assets	(1,028,813)	(963,942)
Payments to acquire tangible fixed assets	(423,121)	(1,020,847)
Net cash outflow for capital expenditure and financial investment	(1,451,934)	(1,984,789)

Financing

	2011 £	2010 £
Issue of equity share capital	450	167
Share premium on issue of equity share capital	–	49,952
Premium on purchase of own equity shares	–	(329,118)
Net cash inflow/(outflow) from financing	450	(278,999)

Reconciliation of net cash flow to movement in net funds

	2011 £	2010 £
Increase in cash in the period	77,705	961,019
Movement in net funds in the period	77,705	961,019
Net funds at 1 August 2010	4,148,357	3,187,338
Net funds at 31 July 2011	4,226,062	4,148,357

26 Notes to the cash flow statement (continued)

Analysis of changes in net funds

	At 1 Aug 2010 £	Cash flows £	At 31 Jul 2011 £
Net cash			
Cash in hand and at bank	4,148,357	77,705	4,226,062
Debt			
Net funds	4,148,357	77,705	4,226,062