

# ***Innovise®***

**Innovise plc**  
**Annual Report 2011**

Company registration number 4101777

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# **Innovise plc**

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## **Innovise plc**

### **Company information**

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<b>Directors</b>	S Coussins (Non-executive Chairman) M Taylor (Chief Executive Officer) A Edwards (Finance Director) J McKenna (Executive Director) A Onacko (Non-executive Director) A Machado (Non-executive Director)
<b>Secretary</b>	A Edwards
<b>Registered office</b>	Keypoint 17-23 High Street Slough SL1 1DY
<b>Registered number</b>	4101777 (England and Wales)
<b>Auditors</b>	Hazlewoods LLP Windsor House Bayshill Road Cheltenham GL50 3AT
<b>Legal adviser</b>	BPE Solicitors St James' House St James' Square Cheltenham GL50 3PR
<b>Bankers</b>	HSBC Bank plc 18 North Street Bishops Cleeve CM23 2LP
<b>Registrar</b>	Share Registrars Ltd Suite E, First Floor 9 Lion and Lamb Yard Farnham GU9 7LL
<b>Financial PR</b>	Wordsworth Communication Ltd 21 Manor Way Beckenham BR3 3LH
<b>Website</b>	<a href="http://www.innovise.com">www.innovise.com</a>

## Innovise plc

### Chairman's statement

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#### Highlights

- Turnover £19.0 million (prior year - £17.1 million)
- Adjusted\* operating profit £1.1 million (prior year - £1.2 million)
- Adjusted\* basic earnings per share 1.8 pence (prior year - 2.1 pence)
- Expolink Software acquired in October 2010 and the intellectual property assets of Pivotal Ltd acquired in December 2010
- Delisting from AIM to enhance long-term value creation

*\* Adjusted excludes amortisation of intangibles, attributable tax and share based payments*

I am pleased to report that Innovise continued to grow and strengthen its business, both through acquisitions and organically, during the year ended 30 September 2011. While the general economic environment remained challenging, the group delivered solid results for the year by continuing to focus on its niche markets and through disciplined financial management.

Our turnover continued to increase through both organic and acquisitive growth, while adjusted operating profit before net finance costs, tax and amortisation of intangibles was lower at £1.1 million versus £1.2 million in the prior year. The lower reported profits reflect the difficult trading conditions and the increased level of investment made during the year.

In line with our focused strategy of value creation, the Board put forward a proposal in 2011 that Innovise plc's admission to AIM be cancelled. The proposal, which was approved by shareholders at an EGM held on 29 June 2011, was made after a detailed cost-benefit analysis. This analysis had led us to conclude that the material costs associated with maintaining an AIM listing could be better deployed as additional investment in growing the business, while the listing in itself was not providing investors with significantly greater liquidity, marketability or scope to trade the shares.

We greatly value the continuing loyalty of our shareholders, and are confident that our strategy will continue to bear fruit in the years to come. An alternative share trading platform has been put in place with J.P. Jenkins, and we are committed to maintaining a regular flow of information for investors through our website, [www.innovise.com](http://www.innovise.com).

Following the approval of the cancellation resolution, I was asked to take over as chairman on the resignation of Vin Murna. On behalf of the Board, I would like to express our gratitude to Vin for the important contribution she made during her three years in the position, and also to David Lean who stepped down at the same time after serving the company well for five years as a non-executive director.

I believe the group is now well placed to deliver its ambitious growth objectives, and I would like to thank everyone in the Innovise team for their important contributions throughout a very eventful year. Their collective dedication, talent and resourcefulness have enabled Innovise to remain firmly on course against significant headwinds in the general economy, and I look forward to reporting on our continuing progress and growth in the future.

**Steve Coussins**  
Chairman

1 February 2012

## **Innovise plc**

### **Chief Executive's review**

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Against a challenging economic backdrop, our focus throughout the year ended 30 September 2011 was to position the business for long-term, sustainable value creation

The two-division group structure introduced during the previous financial year is working well, enabling all parts of our business to respond effectively to the specific needs of customers within each niche. In addition, the decision to de-list from AIM during the year has allowed the Board to direct all its attention and resources on growing the business in the long term

#### **Financial**

Total turnover for the year rose by 11% to £19.0 million as a result of both organic and acquisitive growth

The recurring element of sales also increased markedly, from £3.8 million in 2010 to £5.4 million in 2011

Our operating margins were impacted by the significant investments made in longer-term growth, notably in our ESM division and at the group level

Adjusted operating profit (before net finance costs, tax, amortisation of intangible assets and share-based payments) was £1.1 million compared to £1.2 million in the previous year. Profit after interest, tax and amortisation of intangible assets was £229,000 compared to £457,000 in 2010

Innovise also places great emphasis on maximising cash conversion, and has historically converted a high proportion of its profits into cash. Cash conversion\* for the current year was over 100%. This will continue to be a focus for 2012, although a major fit-out of our new West Midlands office will impact first half cash flows

In order to maximise cash available for further investment in profitable growth, the Board is not recommending payment of an ordinary dividend

#### **Growth strategy**

Innovise is committed to delivering on its long-term growth ambitions, and has continued to grow in scale and capability throughout the protracted downturn, via both acquisitions and organic investments

We expect our medium-term growth to come from three core areas: cross-selling our broader technical capability to existing customers, identifying new solutions within our niche markets, and pursuing international growth - particularly in rapidly maturing markets within developing economies. Over the next several years, our organic and acquisitive investments will align squarely with these growth levers

After making a number of acquisitions between 2007 and 2009, particularly in our ESM division, organic effort is now primarily focused on cross-selling in order to capitalise on the broader, added-value capability we are now able to offer. Adding new solutions within our niche markets is another key element in expanding our business over the medium term

\* Cash conversion is defined as

Cash from operating activities less purchase of plant and equipment as a percentage of operating profit before amortisation of intangible assets

## **Innovise plc**

### **Chief Executive's review (continued)**

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Organically, we have invested in the expansion of our Microsoft Solutions practice in the Software & Solutions division, and will continue to upgrade this in 2012. In the ESM division, our partnership with Service-now.com, a fast growing SaaS provider of IT helpdesk software, has been a strong area of growth. We have captured a number of major solutions sales using this technology, and have invested heavily in building up our technical teams to deliver the projects. We expect this practice area to continue to grow strongly in 2012 and beyond.

Within the Software & Solutions division, we purchased the software division of Expolink Europe Ltd in October 2010. This acquisition brought new customers and new software products that are ideally suited to our facilities management core market. We continue to identify value-adding opportunities to broaden our offerings through these additional products, and to step up cross-selling activity within our expanded customer base.

The ESM division has been an area of heavy acquisition investment in recent years, and is now primarily focused on organic growth. However, we remain alert to bolt-on investment opportunities and in December 2010 we were delighted to acquire the intellectual property assets of Pivotal Ltd, which had been placed in liquidation. We were able to add Pivotal's systems orchestration solutions to the ESM portfolio. We are continuing to develop these solution sets through a dedicated development team, and to make organic investments in sales and marketing to win new customers as well as opportunities to cross-sell the solutions across our existing ESM customer base.

Extending our niche businesses into overseas markets is crucial to our long-term ambitions, particularly within developing markets for ESM. We believe our highly specialised skills will be in strong demand over the next decade as developing markets invest heavily in leading-edge technology - especially in the finance, telecom and utility/energy sectors that make up the majority of our ESM activities.

Our initial focus for international growth is the Middle East and South Asia (MESA) region, where we have already established a number of good relationships. As we begin to build a significant presence in MESA, we will also be assessing other regions with high growth potential.

#### **Outlook**

Innovise remains committed to creating sustainable value as a trusted adviser to a growing number of customers within its niche markets.

The still-challenging economic environment, and a balance sheet that is appropriately geared to that environment, have led us to focus in recent years on smaller-scale, incremental acquisitions rather than transformational deals. We expect this to continue during 2012, and we are well-positioned and eager to seize any such opportunities arising from the tough competitive climate.

The Board is targeting consistent growth of both sales and profits, and will continue to balance short-term performance demands with long-term potential when making organic investment decisions. Our forward sales pipeline is encouraging, and provided trading conditions do not deteriorate, I have every confidence that 2012 will be an exciting and successful year for Innovise, our excellent workforce, and all of us who have invested in the company.

**Mike Taylor**  
Chief Executive Officer

*1 February 2012*

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## Innovise plc

### Directors' report

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The directors present their report with the financial statements of the Innovise plc group for the year ended 30 September 2011

#### PRINCIPAL ACTIVITY

The principal activities of the group are Enterprise Service Management (ESM) IT solutions, the provision of line of business software to the facilities management market, and managed IT solutions

The subsidiary undertakings principally included within the profits and net assets of the group in the year are listed in note 15 to the consolidated financial statements

#### BUSINESS REVIEW

The company is required by the Companies Act to set out in this report a fair review of the business of the group during the financial year ended 30 September 2011 and of the position of the group at the end of the year

The key performance indicators of the group include sales growth, recurring sales growth, adjusted operating profit growth and cash conversion

#### PRINCIPAL RISKS AND UNCERTAINTIES

The group uses various financial instruments including loans, cash, convertible loan stock and various items such as trade debtors and trade creditors that arise directly from its operations

The main risks arising from the group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The directors review and agree policies for managing each of these risks, which are detailed in note 4

Commercial risks include the performance of acquisitions, sustaining quality of service delivery, technical obsolescence and staff retention. The directors continuously monitor these and other risks

#### SHARE CAPITAL

Details of share capital are shown in note 26 to the consolidated financial statements

#### DIVIDENDS

The directors do not recommend the payment of an ordinary dividend (2010 - £nil)

#### DIRECTORS

The following directors have held office since 1 October 2010

V Murria (resigned 29 June 2011)

M Taylor

A Edwards

J McKenna

A Onacko

S Coussins

D Lean (resigned 29 June 2011)

A Machado

## Innovise plc

### Directors' report (continued)

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#### **SUPPLIER PAYMENT POLICY**

The company's policy, which is also applied by the group, is to agree terms of payment with suppliers in advance of each transaction, to ensure that suppliers are made aware of the terms of payment, and to abide by the terms of payment. This policy will continue unchanged in 2012.

The group's average number of days' purchases included within trade creditors at the year end was 28 days (2010 - 32 days)

#### **QUALIFYING THIRD PARTY INDEMNITY PROVISION**

During the financial year, a qualifying third party indemnity provision for the benefit of eight directors was in force.

#### **RESEARCH AND DEVELOPMENT**

Research and development expenditure incurred on the group's software products has been expensed to the income statement in the relevant period.

#### **INFORMATION PROVIDED TO AUDITORS**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware, and each director has taken all steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

A resolution to reappoint Hazlewoods LLP as external auditors will be proposed at the Annual General Meeting.

On behalf of the Board

**Tony Edwards**  
Director



1 February 2012



## **Innovise plc**

### **Statement of directors' responsibilities**

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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 group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 period.

In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether the group financial statements have been prepared in accordance with IFRSs as adopted by the European Union,
- state, with regard to the parent company financial statements, whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

## **Innovise plc**

### **Independent auditors' report to the members of Innovise plc**

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We have audited the financial statements of Innovise plc for the year ended 30 September 2011 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated statement of changes in equity, the consolidated cash flow statement, and the related notes. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial accounting framework that has been applied in the preparation of the parent company financial statements 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 Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

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

#### **Scope of the audit**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

#### **Opinion on financial statements**

##### **In our opinion**

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 30 September 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## **Innovise plc**

### **Independent auditors' report to the members of Innovise plc (continued)**

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#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

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

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

  
**David Main**, Senior statutory auditor

for and on behalf of Hazlewoods LLP, Statutory auditors  
Cheltenham, UK

*1 February 2012*

# Innovise plc

## Consolidated income statement for the year ended 30 September 2011

Company registration number 4101777

		2011 £	2010 £
<b>CONTINUING OPERATIONS</b>			
	<i>Notes</i>		
REVENUE	5	19,017,773	17,059,212
Cost of sales		(10,344,021)	(10,198,241)
GROSS PROFIT		8,673,752	6,860,971
Administrative expenses		(8,217,009)	(6,085,945)
OPERATING PROFIT before amortisation of intangible assets and share-based payments		1,094,256	1,241,022
Share-based payments		(108,000)	(31,500)
Amortisation of intangible assets		(529,513)	(434,496)
OPERATING PROFIT		456,743	775,026
Finance income		2,084	1,481
Finance costs	6	(197,806)	(193,013)
PROFIT BEFORE TAX	7	261,021	583,494
Tax	10	(31,908)	(126,090)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		229,113	457,404
Basic earnings per share	11	0 6p	1 2p
Diluted earnings per share	11	0 6p	1 1p

*The accompanying accounting policies and notes form an integral part of these financial statements*

**Innovise plc**

**Consolidated statement of comprehensive income  
for the year ended 30 September 2011**

		2011	2010
		£	£
	<i>Notes</i>		
Profit for the year		229,113	457,404
Net income recognised directly in equity			
Increase in value of derivative financial instrument taken to hedging reserve	33	9,000	38,000
Total comprehensive income for the year attributable to equity holders of the parent		238,113	495,404

*The accompanying accounting policies and notes form an integral part of these financial statements*

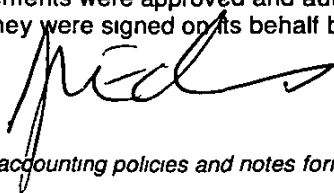
# Innovise plc

## Consolidated balance sheet 30 September 2011

		30 September 2011 £	30 September 2010 £
	<i>Notes</i>		
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
Goodwill	12	12,662,114	12,452,114
Other intangible assets	13	1,303,473	1,232,986
Property, plant and equipment	14	463,146	451,883
Investment in subsidiaries	15	51	51
Deferred tax asset	16	40,352	47,278
		<u>14,469,136</u>	<u>14,184,312</u>
<b>CURRENT ASSETS</b>			
Inventories	17	29,603	35,756
Trade and other receivables	18	4,847,205	4,292,697
Current tax assets		26,917	-
Cash and cash equivalents	19	795,837	118,723
		<u>5,699,562</u>	<u>4,447,176</u>
<b>TOTAL ASSETS</b>		<u>20,168,698</u>	<u>18,631,488</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	20	(6,023,475)	(4,507,731)
Current tax liabilities		-	(210,314)
Convertible loan stock	21	(1,015,456)	(198,200)
Other loans	22	(500,000)	(500,000)
		<u>(7,538,931)</u>	<u>(5,416,245)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(1,839,369)</u>	<u>(969,069)</u>
<b>NON-CURRENT LIABILITIES</b>			
Convertible loan stock	21	-	(935,457)
Other loans	22	(883,332)	(612,571)
Deferred tax liability	25	(208,823)	(372,680)
Provisions	23	(94,500)	(44,417)
Derivative financial instrument	24	-	(9,000)
		<u>(1,186,655)</u>	<u>(1,974,125)</u>
<b>TOTAL LIABILITIES</b>		<u>(8,725,586)</u>	<u>(7,390,370)</u>
<b>NET ASSETS</b>		<u>11,443,112</u>	<u>11,241,118</u>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
Called up share capital	26	2,266,007	2,253,507
Shares to be issued	27	-	500,000
Equity reserve	28	-	19,421
Share premium account		1,083,917	1,083,917
Capital redemption reserve	29	29,054	29,054
Merger reserve	30	6,412,140	5,924,640
Reverse acquisition reserve	31	(918,040)	(918,040)
Retained earnings	32	2,714,153	2,357,619
Hedging reserve	33	-	(9,000)
Own shares	34	(144,119)	-
<b>TOTAL EQUITY</b>		<u>11,443,112</u>	<u>11,241,118</u>

The financial statements were approved and authorised for issue by the board of directors on 1 February 2012. They were signed on its behalf by

**Tony Edwards**  
Director



*The accompanying accounting policies and notes form an integral part of these financial statements*

# Innovise plc

## Consolidated statement of changes in equity for the year ended 30 September 2011

	Share capital	Shares to be issued	Share premium	Capital redemption reserve	Merger reserve	Other reserves	Retained earnings	Hedging reserve	Total equity
	£	£	£	£	£	£	£	£	£
At 1 October 2009	2,241,007	1,000,000	1,083,917	29,054	5,437,140	(898,619)	1,868,715	(47,000)	10,714,214
Comprehensive income	-	-	-	-	-	-	457,404	38,000	495,404
In respect of acquisition of subsidiaries	12,500	(500,000)	-	-	487,500	-	-	-	-
Share-based payments	-	-	-	-	-	-	31,500	-	31,500
At 30 September 2010	2,253,507	500,000	1,083,917	29,054	5,924,640	(898,619)	2,357,619	(9,000)	11,241,118
Comprehensive income	-	-	-	-	-	-	229,113	9,000	238,113
In respect of acquisition of subsidiaries	12,500	(500,000)	-	-	487,500	-	-	-	-
Share-based payments	-	-	-	-	-	-	108,000	-	108,000
Own shares purchased	-	-	-	-	-	(144,119)	-	-	(144,119)
Transfer on redemption of convertible loan	-	-	-	-	-	(19,421)	19,421	-	-
At 30 September 2011	2,266,007	-	1,083,917	29,054	6,412,140	(1,062,159)	2,714,153	-	11,443,112

# Innovise plc

## Consolidated cash flow statement for the year ended 30 September 2011

		Year ended 30 September 2011 £	Year ended 30 September 2010 £
	<i>Notes</i>		
Operating profit		456,743	775,026
Adjustments for			
Depreciation of property, plant & equipment		197,119	180,594
Amortisation of intangible assets		529,513	434,496
Share-based payment expense	35	108,000	31,500
Operating cash flows before movement in working capital		1,291,375	1,421,616
Decrease/(increase) in inventories		14,458	(4,147)
Increase in receivables		(204,731)	(1,224,793)
Increase in payables		817,536	1,098,072
Increase/(decrease) in provisions		50,083	(58,551)
Cash generated by operations		1,968,721	1,232,197
Tax paid net of refunds		(426,070)	(637,574)
<b>Net cash flow from operating activities</b>		<b>1,542,651</b>	<b>594,623</b>
<b>Investing activities</b>			
Interest received		2,084	1,481
Purchases of plant and equipment		(169,382)	(299,554)
Acquisition of subsidiaries	36	(680,000)	(285,881)
Cash balances of acquired subsidiaries	36	196,626	21,788
<b>Net cash used in investing activities</b>		<b>(650,672)</b>	<b>(562,166)</b>
<b>Financing activities</b>			
Repayment of borrowings		(698,201)	(500,000)
Interest paid		(72,545)	(94,193)
Shares repurchased		(144,119)	-
New loans advanced		700,000	-
<b>Net cash used in financing activities</b>		<b>(214,865)</b>	<b>(594,193)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>677,114</b>	<b>(561,736)</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>118,723</b>	<b>680,459</b>
<b>Cash and cash equivalents at end of year</b>	19	<b>795,837</b>	<b>118,723</b>

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank

*The accompanying accounting policies and notes form an integral part of these financial statements*



## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **1. GENERAL INFORMATION**

Innovise plc is a company incorporated in the United Kingdom. The address of the registered office is given on page 2. The nature of the group's operations and its principal activities are set out in note 5.

##### **Basis of accounting**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union and therefore the group financial statements comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the group operates. Foreign operations are included in accordance with the policies set out in note 2.

The principal accounting policies adopted are set out in note 2 below.

At the date of approval of these financial statements, no Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective are expected to have a material impact on financial statements in the future.

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) made up to 30 September each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the effective date of acquisition. Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by the group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

##### **Business combinations**

On 6 February 2006, the company became the legal parent company of TimeGate Group Limited in a share for share transaction. The substance of the combination was, however, that TimeGate Group Limited acquired Innovise plc in a reverse acquisition. This business combination was accounted for using the reverse acquisition method as required by IFRS 3, so that the consolidated financial statements are prepared on the basis of a continuation of the legal subsidiary at the date of acquisition.

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the group in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Goodwill**

Goodwill on acquisitions comprises the excess of the aggregate of the fair values of the consideration transferred, the fair value of any previously held interests, and the recognised value of the non-controlling interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill is allocated to each of the group's cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in a subsequent period.

##### **Revenue recognition**

The group derives revenue from the sale of software licences, hardware, support and installation, project management and other services. These revenue components are often entered into as part of a single transaction, however, each element of the contract is separable and the fair value associated with each element can be reliably measured.

Revenue is recognised as follows:

- licence revenue is recognised on invoicing or when the software and licence key have been delivered whichever is later,
- hardware revenue is invoiced and recognised on delivery to the customer,
- services and training are invoiced and recognised as and when performed,
- project revenue is recognised based on the proportion of the total contract completed, if the final outcome can be assessed with reasonable certainty. The proportion is calculated as costs incurred over total expected costs, applied to total contract value, and
- support and maintenance are recognised straight-line over the period of cover to which they relate.

Amounts billed in excess of revenue recognised are recorded as deferred revenue and are included within current liabilities. Unbilled revenue is included within receivables and accrued income.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the group's general policy on borrowing costs (see below).

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

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

##### **Foreign currencies**

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

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

##### **Retirement benefit costs**

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax

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

Deferred tax is the tax expected to be payable or recoverable 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 balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends to settle its current tax assets and liabilities on a net basis.

##### **Property, plant and equipment**

Fixtures and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost or valuation of assets over their estimated useful lives, using the straight line method, on the following bases:

Land and buildings short leasehold	over the period of the lease
Office equipment	20%
Fixtures and fittings	10%
Computer equipment	20-33%
Motor vehicles	25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Intangibles**

Intellectual property rights acquired are initially recorded at cost and are written off over five years on a straight line basis, being their estimated useful life

When an acquisition of a business is made, a review is undertaken to identify non-monetary assets that meet the definition under IAS 38 Intangible assets. In respect of acquisitions made in the period since transition to IFRS, customer relationships were recognised as being separately identifiable. The fair value was determined on a basis that reflects the amounts the acquirer would have paid for the assets in arm's length transactions between knowledgeable willing parties.

Customer relationships are amortised over their useful economic life of five years on a straight line basis.

##### **Research and development**

Research expenditure is written off in the year in which it is incurred.

Development expenditure is written off in the same way unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the group is expected to benefit from the project. The group has not identified any projects that meet the criteria for recognition.

##### **Impairment of property, plant and equipment and intangible assets excluding goodwill**

At each balance sheet date, the group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

##### **Financial instruments**

Financial assets and financial liabilities are recognised in the group's balance sheet when the group becomes a party to the contractual provisions in the instrument.

## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### ***Trade receivables***

Trade receivables are measured at initial recognition at fair value which is the original invoiced amount less provision for impairment. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

##### ***Cash and cash equivalents***

Cash and cash equivalents comprise cash on hand and demand deposits, 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 changes in value.

##### ***Financial liabilities and equity***

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 group after deducting all of its liabilities.

##### ***Derivative financial instruments and hedge accounting***

It is the group's policy not to trade in derivative financial instruments. The group has taken out an interest rate swap as a cash flow hedge to mitigate its exposure to interest rate changes on its bank loan, which is subject to a variable rate of interest.

All derivatives are recognised at their fair value. The method of recognising movements in the fair value of derivatives depends on whether they are designated as hedging instruments and, if so, the nature of the item being hedged. Derivatives are only designated as hedges provided certain strict criteria are met. At the inception of a hedge, its terms must be clearly documented and there must be an expectation that the derivative will be highly effective in offsetting changes in the cash flow of the hedged risk. The effectiveness of the hedging relationship is tested throughout its life and if at any point it is concluded that it is no longer highly effective in achieving the hedge relationship, it is terminated.

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges (being the interest rate swap) is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

##### ***Convertible loan stock***

Convertible loan stock 2011 is regarded as a compound instrument, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan stocks and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the group, is included in equity.

The interest expense on the liability component is calculated using the effective interest rate for the particular instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan stock.

Convertible loan stock 2012 is not considered to be a compound instrument because the equity component is not material.

##### ***Trade payables***

Trade payables are initially measured at fair value, and are subsequently measured at amortised costs, using the effective interest rate method.

## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

##### **Provisions**

Provisions are recognised when the group has a present obligation as a result of a past event, and it is probable that the group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date.

##### **Share-based awards**

The group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

Fair value is measured by use of the Black Scholes 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.

#### **3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

##### **Critical judgments in applying the group's accounting policies**

In the process of applying the group's accounting policies, which are described in note 2, management has made the following judgments that have the most significant effect on the amounts recognised in the financial statements (apart from those involving estimations, which are dealt with below).

##### **Identification and measurement of separate intangible assets acquired in a business combination**

IFRS 3 Business combinations require the acquirer to recognise separately an intangible asset of the acquiree at the acquisition date if it meets the definition of an intangible asset in IAS 38. Intangible assets and its fair value can be measured reliably.

IAS 38 defines an intangible asset as "an identifiable non-monetary asset without physical substance". An asset meets the identifiability criterion in the definition only if it

- a) is separable, i.e. capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
- b) arises from contractual or other legal rights, regardless of whether those rights are transferrable or separable from the entity or from other rights and obligations.

IFRS 3 requires the acquirer to determine the fair value of intangibles by reference to an active market as defined in IAS 38, or if no active market exists, on a basis that reflects the amounts the acquirer would have paid for the assets in arm's length transactions between knowledgeable willing parties, based on the best information available.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

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#### 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

The separate intangible assets acquired as part of business combinations effected after the transition to IFRS are customer relationships arising from customer maintenance and support agreements (contractual customer relationships) and intellectual property

The values of the contractual customer relationships were estimated using an "excess earnings income approach", by estimating the cash flows expected to be generated from the relationships net of a reasonable return on other assets also contributing to that stream of cash flows, discounted at an appropriate rate of return. This requires the entity to estimate the future cash flows and a suitable discount rate in order to calculate present value.

The value of the intellectual property is based on the estimated equivalent current value of the development costs.

#### Impairment of goodwill

The group tests annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the goodwill is determined from value in use calculations. The key assumptions and estimates for the value in use calculations are those regarding the discount rates, growth rates and expected changes to sales during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to cash-generating units.

The group prepares cash flow forecasts derived from the most recent financial budgets approved by management (which take into account past experience, recent trends and industry growth forecasts) for the next three years, and extrapolates cash flows for subsequent years assuming nominal growth.

The carrying amount of goodwill as at 30 September 2011 is £12,662,114. The directors conducted an impairment review and are satisfied that goodwill is not impaired.

The key assumptions used in the consideration of the carrying amount of goodwill are set out in note 12.

Details of goodwill allocated to cash generating units for which the goodwill so allocated is significant in comparison to total goodwill are as follows:

	2011 £	2010 £
Innovise Enterprise Service Management	8,632,715	8,632,715
Innovise Software & Solutions	4,029,399	3,819,399
	<u>12,662,114</u>	<u>12,452,114</u>

#### Share-based payments

The group has made awards of options over its unissued share capital to certain employees as part of their remuneration package.

The valuation of these options involved making a number of critical estimates relating to price volatility, future dividend yields, expected life of the options and forfeiture rates. These assumptions are described in more detail in note 35.



## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 3. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

##### Income recognition

As set out in the accounting policy note, revenue is recognised as contract activity progresses and the right to consideration is earned, reflecting time and cost incurred as a percentage of total anticipated costs

##### Deferred tax asset

The directors have considered the timing differences arising in calculating the deferred tax position of the group, which gives rise to a potential deferred tax asset primarily in respect of unutilised losses. This has not been recognised as an asset in the financial statements because there are some restrictions on the utilisation of these losses and the directors have therefore decided not to recognise a deferred tax asset.

#### 4. FINANCIAL RISK MANAGEMENT

The group is exposed to risks arising 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.

The principal financial instruments used by the group, from which financial instrument risk arises, are trade receivables, cash and cash equivalents, trade and other payables, and financial liabilities.

The group is exposed through its operations to the following financial instrument risks: credit risk, liquidity risk, interest rate risk and foreign currency risk. The policy for managing these risks is set by the Board. 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. The policy for each of the above risks is described in more detail below.

##### Credit risk

Credit risk arises from the group's trade receivables. It is the risk that the counterparty fails to discharge their obligation in respect of the instrument. 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 are then factored into the credit assessment process to determine the appropriate credit limit for each customer. The group does not enter into derivatives to manage credit risk.

All cash is held with AA-rated banks.

There are no significant concentrations of credit risk within the group at the balance sheet date.

There is no difference between the total carrying amount of trade receivables and cash and cash equivalents and the group's maximum credit risk exposure. The maximum credit risk exposure at 30 September 2011 was:

	2011 £	2010 £
Trade receivables	3,030,282	2,896,664
Other receivables	65,264	149,194
Accrued income	831,862	909,753
Cash and cash equivalents	795,837	118,723
	<u>£4,723,245</u>	<u>£4,074,334</u>

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 4. FINANCIAL RISK MANAGEMENT (continued)

##### *Liquidity risk*

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

The liquidity of each group company is managed locally and monitored by the Board at group level. The level of the group's facilities is approved periodically by the Board and negotiated with the group's current bankers. At the balance sheet date, cash flow projections were considered by the Board and the group is forecast to have sufficient funds and available funding facilities to meet its obligations as they fall due, under all reasonably expected circumstances.

We continue to monitor the working capital requirements and tailor the financing requirements to ensure the group will have sufficient funds to finance its ongoing trading activities.

##### **Financial liability maturity analysis**

At 30 September 2011	Less than 6 months	6 months to 1 year	1 year to 5 years	Total
Trade and other payables	2,362,751	-	-	2,362,751
Redeemable convertible loan stock	1,015,456	-	-	1,015,456
Redeemable non-convertible loan stock	-	-	758,332	758,332
Bank loans	250,000	250,000	125,000	625,000
<b>Total</b>	<b>3,628,207</b>	<b>250,000</b>	<b>883,332</b>	<b>4,761,539</b>

At 30 September 2010	Less than 6 months	6 months to 1 year	1 year to 5 years	Total
Trade and other payables	1,870,292	-	-	1,870,292
Redeemable convertible loan stock	198,200	-	935,457	1,133,657
Bank loans	250,000	250,000	612,571	1,112,571
<b>Total</b>	<b>2,318,492</b>	<b>250,000</b>	<b>1,548,028</b>	<b>4,116,520</b>

##### *Interest rate risk*

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates.

The company took out an interest rate cap and collar agreement as a cash flow hedge in respect of 70% of the bank loan described in note 21 to the financial statements, with the amount subject to the cap and collar amortising in proportion to repayments made in respect of the loan. The agreement, which is taken out with the same bank that advanced the loan, swaps the variable rate of interest, which is 1.5% to 2.25% above base rate, with a base rate not lower than 4.75% or above 6.75% if the base rate falls outside that range at any time. None of the outstanding bank loan was still subject to the cap and collar agreement described above at 30 September 2011, as the cap and collar agreement ended in December 2010. There is no current plan to take out a new interest rate hedge but the directors will keep the position under review.

**Sensitivity analysis** A one percentage point change in bank base rate would result in a change in finance cost of £6,000 (2010 - £13,000).

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 4. FINANCIAL RISK MANAGEMENT (continued)

##### *Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign currency risk arises because the group has a small operation in India, whose functional currency is not the same as the primary functional currency of the group (sterling). However the size of the Indian operation is sufficiently small that the Board does not consider it necessary to adopt hedging techniques to manage the foreign currency risk arising. The directors consider that reasonably possible changes in the relevant exchange rates would not have a significant effect on the group's operations.

The debtor and cash balances at the year end represent approximately 3% of annual turnover and the directors consider that changes in the relevant exchange rates are unlikely to have a significant effect on the group's operations.

Included within the financial statement at 30 September 2011 are the following amounts that are denominated in foreign currencies

	US Dollars £	Euros £	Other £	Total £
Trade receivables	223,000	310,000	-	533,000
Cash and cash equivalents	32,000	2,000	31,000	65,000
				<u>598,000</u>

##### **Financial assets**

The group has the following financial assets, all of which are classified as loans and receivables

	2011 £	2010 £
Trade and other receivables	3,927,408	3,955,611
Cash and cash equivalents	795,837	118,723
	<u>4,723,245</u>	<u>4,074,334</u>

Further details of these items can be found in notes 18 and 19. The fair value of all financial assets is considered to be equal to their carrying amounts.

##### **Financial liabilities**

The group has the following financial liabilities

	2011 £	2010 £
At amortised cost		
Trade and other payables	2,362,751	1,870,292
Convertible loan stock	1,015,456	1,133,657
Other loans	1,383,332	1,112,571
	<u>4,761,539</u>	<u>4,116,520</u>
At fair value		
Derivative financial instruments	-	9,000
	<u>4,761,539</u>	<u>4,125,520</u>

Further details of these items can be found in notes 20 to 22 and 24. The fair value of the derivative financial instruments is based upon a valuation technique with reference to observable market interest rates.

The fair value of all financial liabilities is considered to be equivalent to their carrying amount.

## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **4. FINANCIAL RISK MANAGEMENT (continued)**

##### **Managing capital**

The group is both equity and debt funded and these two elements combine to make up the capital structure of the business. Equity comprises share capital and reserves and is equal to the amount shown as "Total Equity" in the balance sheet. Debt comprises convertible loan stock and other loans as set out in notes 21 and 22.

The group's objectives when maintaining capital are

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk

The group sets the amount of capital it requires in proportion to risk. The group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

During the year ended 30 September 2011, the group's strategy, which was unchanged from the previous year, was to keep net debt to a minimum, through profitable trading and good cash management.

#### **5. ANALYSIS OF BUSINESS SEGMENTS**

For management purposes, the group is currently organised into two operating divisions – Innovise Enterprise Service Management (ESM) and Innovise Software & Solutions (S & S).

These divisions are the basis on which the group reports its segment information. The operating company segments are presented on the same basis as that used for internal reporting purposes to the Board, who are the chief operating decision makers.

The group measures the performance of its operating segments based on revenue and profit from operations, before any exceptional items. Group overhead costs are shown in the non-segment specific expenses. The accounting policies used in the segment reporting reflect those used by the group in its internal reporting.

Principal activities are as follows:

Innovise ESM: provision of Enterprise Service Management solutions, training and technical services.  
Innovise S & S: provision of line of business software for the facilities management market and managed IT solutions.

The directors consider that the group does not hold any material non-current assets outside the United Kingdom.

Segment information about these businesses is presented on the following pages:

# Innovise plc

## Notes to the consolidated financial statements for the year ended 30 September 2011

### 5. ANALYSIS OF BUSINESS SEGMENTS (continued)

	Innovise ESM £	Innovise S & S £	Total £	
<b>Year ended 30 September 2011</b>				
REVENUE				
United Kingdom	10,739,777	6,061,402	16,801,179	
Europe	732,983	293,983	1,026,966	
Rest of the world	1,100,370	89,258	1,189,628	
Total revenue	<u>12,573,130</u>	<u>6,444,643</u>	<u>19,017,773</u>	
Operating profit before amortisation and non-segment specific expenses	1,054,702	1,108,554	2,163,256	
Amortisation	(414,000)	(115,513)	(529,513)	
Operating profit after amortisation	640,702	993,041	1,633,743	
Non-segment specific expenses			(1,177,000)	
Operating profit			456,743	
Finance income			2,084	
Finance costs			(197,806)	
Profit before tax			261,021	
Tax			(31,908)	
Profit after tax			<u>229,113</u>	
	ESM	S & S	Non-segment specific	Total
Capital additions excluding goodwill	<u>30,320</u>	<u>178,062</u>	-	208,382
Depreciation of tangible assets	<u>24,370</u>	<u>154,749</u>	18,000	197,119
Amortisation of intangible assets	<u>414,000</u>	<u>115,513</u>	-	529,513
<b>Balance sheet</b>				
	ESM	S & S	Non-segment specific	Total
Segment assets	12,364,579	6,948,050	856,069	20,168,698
Segment liabilities	<u>(2,718,033)</u>	<u>(3,396,705)</u>	<u>(2,610,848)</u>	<u>(8,725,586)</u>
Segment net assets (liabilities)	9,646,546	3,551,345	(1,754,779)	11,443,112

# Innovise plc

## Notes to the consolidated financial statements for the year ended 30 September 2011

### 5. ANALYSIS OF BUSINESS SEGMENTS (continued)

	Innovise ESM £	Innovise S & S £	Total £	
<b>Year ended 30 September 2010</b>				
<b>REVENUE</b>				
United Kingdom	8,730,858	4,544,112	13,274,970	
Europe	1,128,252	116,239	1,244,491	
Rest of the world	2,482,816	56,935	2,539,751	
Total revenue	<u>12,341,926</u>	<u>4,717,286</u>	<u>17,059,212</u>	
Operating profit before amortisation and non-segment specific expenses	972,522	861,000	1,833,522	
Amortisation	(414,000)	(20,496)	(434,496)	
Operating profit after amortisation	558,522	840,504	1,399,026	
non segment specific expenses			(624,000)	
Operating profit			775,026	
Finance income			1,481	
Finance costs			(193,013)	
Profit before tax			583,494	
Tax			(126,090)	
Profit after tax			<u>457,404</u>	
	ESM	S & S	Non-segment specific	Total
Capital additions excluding goodwill	<u>14,772</u>	<u>168,033</u>	<u>116,749</u>	<u>299,554</u>
Depreciation of tangible assets	<u>21,612</u>	<u>140,982</u>	<u>18,000</u>	<u>180,594</u>
Amortisation of intangible assets	<u>414,000</u>	<u>20,496</u>	<u>-</u>	<u>434,496</u>
<b>Balance sheet</b>				
	ESM	S & S	Non-segment specific	Total
Segment assets	13,051,547	5,050,339	529,602	18,631,488
Segment liabilities	<u>(2,337,978)</u>	<u>(2,351,338)</u>	<u>(2,701,054)</u>	<u>(7,390,370)</u>
Segment net assets (liabilities)	<u>10,713,569</u>	<u>2,699,001</u>	<u>(2,171,452)</u>	<u>11,241,118</u>

# Innovise plc

## Notes to the consolidated financial statements for the year ended 30 September 2011

### 6. FINANCE COSTS

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Interest on non-convertible loan stock	58,332	-
Interest on convertible loan stock	82,988	85,620
Interest on bank loans	50,371	106,264
Interest on taxation	6,115	1,129
	<u>197,806</u>	<u>193,013</u>

### 7. PROFIT BEFORE TAX

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Profit on ordinary activities is stated after charging		
Research and development expenditure	1,160,783	479,000
Amortisation of intangible assets	529,513	434,496
Depreciation of plant and equipment	197,119	180,594
Equity-settled share-based payment	108,000	31,500
	<u>1,995,415</u>	<u>1,125,590</u>

The analysis of auditors' remuneration is as follows

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Fees payable to the company's auditors for the audit of the company's annual financial statements	18,000	20,000
Fees payable to the company's auditors and their associates for other services to the group.		
- The audit of the company's subsidiaries pursuant to legislation	24,000	40,300
<i>Total audit fees</i>	<u>42,000</u>	<u>60,300</u>
Other services		
- Advice relating to preparation of financial statements and tax computations	27,533	-
- Financial due diligence services	12,000	-
<i>Total non-audit fees</i>	<u>39,533</u>	<u>-</u>

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 8. STAFF COSTS

	Year ended 30 September 2011 No	Year ended 30 September 2010 No
The monthly average number of persons (including directors) employed in the year was		
Management and administration	23	18
Development, service and support	109	105
Sales and marketing	28	23
	<u>160</u>	<u>146</u>

Their aggregate remuneration comprised

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Wages and salaries	7,752,705	5,741,837
Social security costs	807,642	585,394
Other pension costs – defined contribution schemes	318,291	338,237
	<u>8,878,638</u>	<u>6,665,468</u>



## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 9. DIRECTORS' REMUNERATION

The remuneration of the directors who are the key management of the group, together with other costs of employment, was as follows

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Emoluments	408,707	184,000
Pension	142,791	180,000
Total emoluments and pension contributions	<u>551,498</u>	<u>364,000</u>
<i>Other</i>		
Estimated value of share-based payment entitlements	29,000	13,168
Social security contributions	49,384	25,392
Total cost of employment	<u>629,882</u>	<u>402,560</u>

Amounts of emoluments and pension attributable to the highest paid director

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Emoluments	149,000	21,000
Pension	53,999	80,000
	<u>202,999</u>	<u>101,000</u>

Directors' remuneration above relates to remuneration paid to the directors of the parent company by any group company for the periods for which they were directors thereof. During the year, four directors accrued benefits under defined contribution pension schemes (2010 – three)

The share-based payment in the year related to EMI options awarded to directors was £29,000 (2010 - £13,168). 1,523,684 EMI options were issued to the directors on 25 January 2010 at an exercise price of 31 5p each and with an exercise value of £479,960. EMI options over 380,921 shares with a value of £119,990 were awarded to each of the four executive directors (Tony Edwards, Joe McKenna, Andy Onacko and Mike Taylor). The EMI options have a vesting period of three years and must be exercised within ten years. The EMI options awarded to Andy Onacko were forfeited on 29 June 2011 when he ceased to be an executive director. The other EMI options were cancelled on 30 September 2011. As at 30 September 2011 no directors held any options. No director exercised any share options in the year.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 10. TAX

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
<b>Current tax</b>		
UK corporation tax based on profit for the year at 27% (2010 – 28%)	75,184	240,183
Underprovision in respect of prior year	1,922	11,162
Overseas income tax	111,733	4,000
	<u>188,839</u>	<u>255,345</u>
<b>Deferred tax</b>		
Accelerated tax depreciation	(13,389)	(12,635)
Attributable to fair value gains	(141,480)	(115,950)
Other temporary differences	(2,062)	(670)
	<u>31,908</u>	<u>126,090</u>
Tax expense for the year	<u>31,908</u>	<u>126,090</u>

The charge for the year can be reconciled to the profit/(loss) for the year as follows

Profit before tax	261,021	583,494
Tax at effective UK corporation tax rate of 27% (2010 - 28%)	70,476	163,379
Tax effect of expenses that are not deductible in determining taxable profit	46,583	24,466
Tax effect of utilisation of tax losses not previously recognised as a deferred tax asset	(36,031)	(50,073)
Difference between depreciation recognised in the financial statements and depreciation deductible as a tax expense not recognised in deferred tax as a temporary difference	-	(9,638)
Allowance for goodwill amortisation recognised in parent company financial statements under UK GAAP but not recognised in consolidated financial statements	(14,625)	(9,254)
Difference arising on deferred tax liability resulting from a reduction in tax rates	(42,334)	-
Unrelieved overseas tax	23,623	-
Underprovision in respect of prior year	1,922	11,162
Other differences	(17,706)	(3,952)
Tax expense for the year	<u>31,908</u>	<u>126,090</u>

A deferred tax asset has not been recognised in respect of tax losses available for carry forward against future profits as there are some potential restrictions on the use of these tax losses. At 30 September 2011, the group had unutilised trading losses available for carry forward for offset against future taxable trading profits of £443,000 (2010 - £543,000). At the current rate of UK corporation tax, this would give rise to a deferred tax asset of £115,000 (2010 - £151,000).

The total amount of future goodwill amortisation under UK GAAP not yet relieved is £806,655 (2010 - £160,820).

# Innovise plc

## Notes to the consolidated financial statements for the year ended 30 September 2011

### 11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data

#### *Earnings for the year attributable to equity holders of the parent*

	Year ended 30 September 2011 £	Year ended 30 September 2010 £
Earnings for the purpose of basic earning per share being net profit attributable to equity holders of the parent	229,113	457,404
Basic earnings per share	0 6p	1 2p
Diluted earnings per share	0 6p	1 1p

#### *Number of shares*

	Year ended 30 September 2011	Year ended 30 September 2010
Weighted average number of ordinary shares for the purpose of basic earnings per share	39,601,387	38,767,140
Effect of dilutive potential ordinary shares		
Contingently issued shares on acquisition of subsidiary	554,795	1,633,562
Weighted average number of ordinary shares for the purpose of diluted earning per share	40,156,182	40,400,702

#### *Adjusted earnings per share*

Adjusted earnings per share calculated before deducting restructuring costs and amortisation/impairment of intangible assets and goodwill and tax attributable thereto are presented below in order to assist in an understanding of the underlying performance of the business

	Year ended 30 September 2011	Year ended 30 September 2010
<b>Adjusted earnings</b>		
Earnings for the purpose of basic earning per share being net profit for continuing operations	229,113	457,404
Amortisation of intangible assets	529,513	434,496
Tax credit attributable to amortisation	(141,480)	(115,920)
Share-based payment	108,000	31,500
<b>Earnings for the purpose of adjusted basic and diluted earnings per share calculation</b>	<b>725,146</b>	<b>807,480</b>
Adjusted basic earnings per share	1.8p	2 1p
Adjusted diluted earnings per share	1 8p	2 0p

The number of shares for the purpose of calculating the adjusted earnings per share figures is as set out above

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 12. GOODWILL

	£
<b>COST AND CARRYING AMOUNT</b>	
At 1 October 2009	12,347,305
Recognised on acquisition of subsidiary	104,809
At 1 October 2010	12,452,114
Recognised on acquisition of business	210,000
At 30 September 2011	<u>12,662,114</u>

The goodwill shown above is attributed to non-separable intangible assets including skilled workforces, opportunities to win new customers, and non-contractual customer relationships

During the year the carrying value of goodwill was tested for impairment in accordance with IAS 36. All of the recoverable amounts were measured based on value in use.

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to business segment. A segment-level summary of the goodwill allocation is presented below.

	2011 £	2010 £
Innovise ESM	8,632,715	8,632,715
Innovise Software & Solutions	4,029,399	3,819,399
	<u>12,662,114</u>	<u>12,452,114</u>

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the directors covering a period of three years with an underlying growth rate of 10% and assuming no growth thereafter. The long-term growth rate does not exceed the long-term average growth rate for the industry in which the CGU operates. A discount rate of 9% has been used, which is the directors' estimate of the risk-adjusted cost of capital for a business of this type.

These assumptions have been used for the analysis of each CGU within the business segment.

Management determines budgeted gross margins based on past performance and its expectations of market development. The discount rates used are the directors' estimate of the company's cost of capital as adjusted for an investment with a similar risk profile. A provision for impairment would be required if the discount rate exceeded 11% or if the long-term growth rate was less than -2%.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 13. OTHER INTANGIBLE ASSETS

	Contractual customer relationships £	Intellectual property £	Total £
<b>GROUP Cost</b>			
At 1 October 2009 & 30 September 2010	2,070,000	102,500	2,172,500
Recognised on acquisition	100,000	500,000	600,000
At 30 September 2011	<u>2,170,000</u>	<u>602,500</u>	<u>2,772,500</u>
<b>Amortisation</b>			
At 1 October 2009	428,527	76,491	505,018
Charge for year	<u>414,000</u>	<u>20,496</u>	<u>434,496</u>
At 1 October 2010	842,527	96,987	939,514
Charge for year	<u>432,333</u>	<u>97,180</u>	<u>529,513</u>
At 30 September 2011	<u>1,274,860</u>	<u>194,167</u>	<u>1,469,027</u>
Net book value at 30 September 2011	<u>895,140</u>	<u>408,333</u>	<u>1,303,473</u>
Net book value at 30 September 2010	<u>1,227,473</u>	<u>5,513</u>	<u>1,232,986</u>
Net book value at 1 October 2009	<u>1,641,473</u>	<u>26,009</u>	<u>1,667,482</u>

The weighted average remaining life of the contractual customer relationships is 25 months (2010 – 36 months)

The weighted average remaining life of the intellectual property is 49 months (2010 – 3 months)

**Innovise plc**

**Notes to the consolidated financial statements  
for the year ended 30 September 2011**

**14. PROPERTY, PLANT AND EQUIPMENT**

	Short leasehold property £	Motor vehicles £	Computer equipment £	Office equipment £	Total £
<b>COST</b>					
At 1 October 2009	38,248	-	393,054	76,888	508,190
Additions	116,749	-	177,805	5,000	299,554
Disposals	-	-	(85,192)	(18,384)	(103,576)
At 1 October 2010	154,997	-	485,667	63,504	704,168
Additions	-	39,000	129,551	39,831	208,382
Disposals	-	-	(19,306)	(20,515)	(39,821)
At 30 September 2011	<u>154,997</u>	<u>39,000</u>	<u>595,912</u>	<u>82,820</u>	<u>872,729</u>
<b>ACCUMULATED DEPRECIATION</b>					
At 1 October 2009	-	-	115,728	59,539	175,267
Charge for period	18,000	-	151,101	11,493	180,594
Disposal	-	-	(85,192)	(18,384)	(103,576)
At 1 October 2010	18,000	-	181,637	52,648	252,285
Charge for year	18,000	11,000	155,230	12,889	197,119
Disposal	-	-	(19,306)	(20,515)	(39,821)
At 30 September 2011	<u>36,000</u>	<u>11,000</u>	<u>317,561</u>	<u>45,022</u>	<u>409,583</u>
<b>CARRYING AMOUNT</b>					
At 30 September 2011	<u>118,997</u>	<u>28,000</u>	<u>278,351</u>	<u>37,798</u>	<u>463,146</u>
At 30 September 2010	<u>136,997</u>	<u>-</u>	<u>304,030</u>	<u>10,856</u>	<u>451,883</u>
At 1 October 2009	<u>38,248</u>	<u>-</u>	<u>277,326</u>	<u>17,349</u>	<u>332,923</u>

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 15. INVESTMENT IN SUBSIDIARIES

Cost	£
At 1 October 2009	51
Additions	-
At 30 September 2010	51
Additions	-
At 30 September 2011	51

Investments are stated at cost and comprise shares in Personnel Automated Screening Limited (a dormant company)

At the balance sheet date, the group comprised the parent company and the following subsidiary undertakings

	<i>Country of registration</i>	<i>Class of holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Innovise S & S Holdings Limited	England and Wales	Ordinary shares	100%	Holding company
Roster Management Limited	England and Wales	Ordinary shares	100%	Dormant
Innovise ESM Holdings Limited	England and Wales	Ordinary shares	100%	Holding company
Ausped Limited	England and Wales	Ordinary shares	100%	Dormant
Abilitec Limited	England and Wales	Ordinary shares	100%	Dormant
Abilitec No 1 Limited	England and Wales	Ordinary shares	100%	Dormant
Innovise Solutions Limited	England and Wales	Ordinary shares	100%	Dormant
TimeGate IPR Limited	England and Wales	Ordinary shares	100%	Dormant
Innovise Software and Solutions Limited	England and Wales	Ordinary shares	100%	Software development
Personnel Automated Screening Limited	England and Wales	Ordinary shares	50%	Dormant
Innovise India Private Limited	India	Ordinary shares	100%	Software development
Innovise ESM Limited	England and Wales	Ordinary shares	100%	IT Service Management
RapidHost Limited	England and Wales	Ordinary shares	100%	Dormant
Harbrook Consultants Limited	England and Wales	Ordinary shares	100%	Dormant
Identifile Systems Limited	England and Wales	Ordinary shares	100%	Dormant
Innovise ESM Software Limited	England and Wales	Ordinary shares	100%	Software development
Innovise Enterprise Service Management (Pty) Limited	South Africa	Ordinary shares	100%	Dormant

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 15. INVESTMENT IN SUBSIDIARIES (continued)

The shares in Innovise Software and Solutions Limited are held by Innovise S & S Holdings Limited

The shares in Innovise India Private Limited are held by Innovise S & S Holdings Limited (99%) and Innovise plc (1%)

The shares in Personnel Automated Screening Limited, TimeGate IPR Limited, Roster Management Limited, Innovise Solutions Limited, RapidHost Limited and Identifile Systems Limited are held by Innovise Software and Solutions Limited

The shares in Innovise ESM Limited and Innovise ESM Software Limited are held by Innovise ESM Holdings Limited

The shares in Abilitec Limited and Abilitec No 1 Limited, Innovise Enterprise Service Management (Pty) Limited and Harbrook Consultants Limited are held by Innovise ESM Limited

Innovise Solutions Limited became dormant on 30 September 2010 when the assets and liabilities of that company were hived up to Innovise Software and Solutions Limited

#### 16. DEFERRED TAX ASSET

The movement on the deferred tax asset is

	£
At 1 October 2009	7,864
Movement in temporary differences – credited to income statement	39,414
At 1 October 2010	47,278
Movement in temporary differences – debited to income statement	(6,926)
As at 30 September 2011	40,352

The deferred tax asset comprises

	30 September 2011 £	30 September 2010 £
Decelerated tax depreciation	33,697	42,685
Other temporary differences	6,655	4,593
	40,352	47,278

#### 17. INVENTORIES

	30 September 2011 £	30 September 2010 £
Stock	29,603	35,756



# Innovise plc

## Notes to the consolidated financial statements for the year ended 30 September 2011

### 18. TRADE AND OTHER RECEIVABLES

	30 September 2011 £	30 September 2010 £
Trade receivables	3,030,282	2,896,664
Other receivables	65,264	149,194
Accrued income	831,862	909,753
Prepayments	919,797	337,086
	<u>4,847,205</u>	<u>4,292,697</u>

The average credit period taken on trade receivables is 70 days (2010 – 59 days) No interest is charged on receivables. An allowance has been made for estimated irrecoverable amounts from the sale of goods and services of £64,900, a decrease of £100,000 over the previous year's allowance of £164,900. This allowance has been determined by reference to past default experience and expected non-recovery of existing debts.

Movements in the provision for impairment of trade receivables are as follows

	£
At 1 October 2009	36,525
Provision for receivables impairment	150,000
Receivables written off	<u>(21,625)</u>
Provision at 30 September 2010	164,900
Provision for receivables impairment	-
Receivables subsequently recovered	<u>(100,000)</u>
Provision at 30 September 2011	<u>64,900</u>

As at 30 September 2011, trade and other receivables of £881,659 (2010 - £882,309) were past due but not impaired. The ageing analysis of these receivables was as follows

	2011 £	2010 £
30-60 days	364,662	260,268
60-90 days	247,419	69,841
90-120 days	119,908	352,474
More than 120 days	149,670	199,726
	<u>881,659</u>	<u>882,309</u>

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 19. CASH AND CASH EQUIVALENTS

	30 September 2011 £	30 September 2010 £
Cash and cash equivalents	<u>795,837</u>	<u>118,723</u>

Cash and cash equivalents comprise cash held by the group and short-term bank deposits with an original maturity date of three months or less. The carrying amount of these assets approximates their fair value.

#### 20. TRADE AND OTHER PAYABLES

	30 September 2011 £	30 September 2010 £
Trade payables	915,466	1,103,370
Accruals	1,204,305	613,301
Deferred income	2,997,787	1,941,184
Other taxation and social security	662,937	696,255
Acquisition deferred consideration	210,000	80,000
Other payables	32,980	73,621
	<u>6,023,475</u>	<u>4,507,731</u>

Trade creditors and accruals principally comprise amounts outstanding from trade purchases and ongoing costs. The average credit period taken for trade purchases is 31 days (2010 – 28 days).

The directors consider that the carrying amount of trade payables approximates their fair value.

#### 21. CONVERTIBLE LOAN STOCK

The convertible loan stock 2011 was issued on 6 February 2006 and redeemed on 6 February 2011.

On 21 January 2009 the company issued £800,000 of convertible loan stock 2012, redeemable on 21 January 2012. The company has the option to redeem the loan stock at any time after 21 January 2011 and the loan stock holders have the right to convert the loan stock into new ordinary shares in the company at 45 pence per share with effect from the same date. In the event that within 5 business days both parties give notice to redeem or convert the loan, as the case may be, the loan is 50% redeemed and 50% converted to shares.

The loan stock holders also have the right to have their stock redeemed or converted on a sale of the company and the company has the right to redeem the loan stock on any such sale. The convertible loan stock 2012 bears interest at 10% per annum which is rolled up and payable only on redemption. The directors are of the opinion that the equity component of the convertible loan stock 2012 is not material.

After the year end, all of the convertible loan stock was redeemed when it became due on 21 January 2012 and was rolled over into new instruments with the same lenders.

#### *Summary*

The net proceeds from the issue of the convertible loan stock 2011 was split between the liability element and the equity component, representing the fair value of the embedded option to convert the liability into equity of the group. The equity component is disclosed separately as an equity reserve (note 28). The amount taken to equity has been transferred from the equity reserve to retained earnings following the redemption of the loan during the year.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 22. OTHER LOANS

	30 September 2011 £	30 September 2010 £
Current liabilities		
Bank loan	<u>500,000</u>	<u>500,000</u>
	30 September 2011 £	30 September 2010 £
Non-current liabilities		
Bank loan	125,000	612,571
Non-convertible loan stock 2012	545,346	-
Non-convertible loan stock 2013	<u>212,986</u>	<u>-</u>
	<u>883,332</u>	<u>612,571</u>

The bank loan is repayable in equal quarterly instalments of £125,000. The maturity analysis is as follows:

	2011 £	2010 £
1-2 years	500,000	500,000
2-5 years	<u>125,000</u>	<u>112,571</u>
	<u>625,000</u>	<u>612,571</u>

Interest is payable at 2.25% above the HSBC Bank plc base rate, reducing to 1.5% above base rate at such times that the ratio of all financial indebtedness has fallen below 1.5 times earnings before interest, taxation, depreciation and amortisation. The bank loan is repayable in quarterly instalments of £125,000 and is secured by a first fixed and floating charge over all assets of the group and by cross guarantees between all group companies. All debt is denominated in pounds sterling.

#### *Non-convertible loan stock 2012*

On 4 November 2010 the company issued £500,000 of non-convertible loan stock 2012, redeemable on 4 November 2012. The non-convertible loan stock 2012 bears interest at 10% per annum which is rolled up and payable only on redemption.

#### *Non-convertible loan stock 2013*

On 6 February 2011 the company issued £200,000 of non-convertible loan stock 2013, redeemable on 6 February 2013. The non-convertible loan stock 2013 bears interest at 10% per annum which is rolled up and payable only on redemption.

The group has undrawn committed borrowing facilities of £1 million relating to a revolving credit facility from its bankers which expires in 30 April 2014.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 23. PROVISIONS

	Other £	Dilapidations on leasehold properties £	Total £
At 1 October 2009	47,468	55,500	102,968
Provided during the year	27,417	-	27,417
Utilised during the year	(35,468)	(50,500)	(85,968)
At 1 October 2010	39,417	5,000	44,417
Provided during the year	-	89,500	89,500
Utilised during the year	(39,417)	-	(39,417)
At 30 September 2011	-	94,500	94,500

The dilapidations provision represents management's best estimate of dilapidation costs accrued to date in respect of leasehold properties. It is expected that the dilapidation provision will become payable by October 2014.

The other provision relates to the excess costs of an onerous property lease which was surrendered in October 2010.

#### 24. DERIVATIVE FINANCIAL INSTRUMENTS

The balance represented the fair value of the interest rate cap and collar agreement, described in note 4 to the financial statements and which has now expired.

#### 25. DEFERRED TAX LIABILITY

	2011 £	2010 £
The movement in the deferred tax account is as follows		
At beginning of year	372,680	462,521
Income statement credit	(163,857)	(89,841)
At end of year	208,823	372,680

The deferred tax liability comprises

	2011 £	2010 £
Accelerated tax depreciation	6,611	28,988
Attributable to fair value gains	202,212	343,692
At end of year	208,823	372,680

Fair value gains reflect the difference between the carrying value of intangible assets relating to contractual customer relationships and their tax equivalent value of zero.

As explained in note 10, the group has a potential deferred tax asset which has not been recognised in these financial statements because there are some potential restrictions on the use of these tax losses.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 26. SHARE CAPITAL

	Year ended 30 Sept 2011	Year ended 30 Sept 2010
	£	£
Authorised		
100,000,000 ordinary shares of 1p each	1,000,000	1,000,000
735,000,000 deferred shares of 1p each	7,350,000	7,350,000
	<u>8,350,000</u>	<u>8,350,000</u>
Allotted, issued and fully paid		
40,400,702 (2010 – 39,150,702) ordinary shares of 1p each	404,007	391,507
186,200,000 deferred shares of 1p each	1,862,000	1,862,000
	<u>2,266,007</u>	<u>2,253,507</u>

The deferred shares have no dividend or voting rights. As regards capital, the holders shall be entitled to the subscription price of such shares on winding up only after the holders of the ordinary shares have received £10 million in respect of each ordinary share.

On 21 January 2011, the company issued 1,250,000 new ordinary shares of 1p each at 40p per share as part consideration for the acquisition of Innovise ESM Limited (formerly known as Infrastolve Limited) by Innovise ESM Holdings Limited.

Details of options over unissued shares are set out in note 27.

#### 27. SHARES TO BE ISSUED

	£
At 1 October 2009	1,000,000
Shares issued for deferred consideration in year	<u>(500,000)</u>
At 30 September 2010	500,000
Shares issued for deferred consideration in year	<u>(500,000)</u>
At 30 September 2011	<u>-</u>

During the year ended September 2010, the company issued 1,250,000 ordinary shares in the parent company at a price of 40p in settlement of deferred consideration payable on the acquisition of Innovise ESM Limited.

As detailed in note 26, the company issued 1,250,000 ordinary shares in the parent company at a price of 40p in settlement of deferred consideration payable on the acquisition of Innovise ESM Limited.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

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#### 28. EQUITY RESERVE

The equity reserve represented the equity component of the convertible loan stock. This reserve has been released to distributable profits following the repayment of the loan notes during the year.

#### 29. CAPITAL REDEMPTION RESERVE

Balance at 1 October 2009, 1 October 2010 and 30 September 2011	£ <u>29,054</u>
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#### 30. MERGER RESERVE

Balance at 1 October 2009	£ 5,437,140
Premium in shares issued on acquisitions in the year	<u>487,500</u>
Balance at 1 October 2010	5,924,640
Premium on shares issued on acquisitions in the year	<u>487,500</u>
Balance at 30 September 2011	<u>6,412,140</u>

The merger reserve relates to the notional premium on shares issued in exchange for shares in companies acquired, in which a holding of at least 90% of the equity share capital is acquired and hence merger relief under section 131 of the Companies Act 1985 and section 612 of the Companies Act 2006 is mandatory, whereby it is not a requirement to take the premium to share premium account.

The merger reserve arising on acquisitions relates to the premiums on shares issued in consideration for the acquisition of the entire share capital of Roster Management Limited, Abilitec Limited, Innovise ESM Limited, Harbrook Consultants Limited and Innovise Solutions Limited.

#### 31. REVERSE ACQUISITION RESERVE

This represents a non-distributable reserve arising from the application of the principles of reverse acquisition accounting for the business combination of Innovise plc and TimeGate Group Limited in February 2006.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 32. RETAINED EARNINGS

	£
Balance at 1 October 2009	1,868,715
Profit for the year	457,404
Credit to equity for equity-settled share-based payments	31,500
Balance at 1 October 2010	2,357,619
Net profit for the year	229,113
Transfer on redemption of convertible loan	19,421
Credit to equity for equity-settled share-based payments	108,000
Balance at 30 September 2011	2,714,153

#### 33. HEDGING RESERVE

	£
Balance at 1 October 2009	(47,000)
Increase in value of derivative financial instruments in the year ended 30 September 2010	38,000
Balance at 1 October 2010	(9,000)
Increase in value of derivative financial instruments in the year ended 30 September 2011	9,000
Balance at 30 September 2011	-

The hedging reserve reflects movements in the fair value of a derivative financial instrument which is considered to be a highly effective hedge against the financial risks inherent in financial instruments recognised on the balance sheet. The instrument expired during the year and hence no balance remains at the end of the financial year.

#### 34. OWN SHARES

	£
Balance at 1 October 2009 and 2010	-
Acquired in the period at cost	144,119
Balance at 30 September 2011	144,119

The own shares reserve represents the cost of shares in Innovise plc purchased in the market and held in Treasury and by the Innovise Employee Benefit Trust to satisfy options under the group's share option schemes. The number of ordinary shares held by the Employee Benefit Trust at 30 September 2011 was 375,000 (2010 – nil) and 544,105 shares are held in Treasury.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 35. EQUITY-SETTLED SHARE-BASED PAYMENTS

The company has an EMI share option scheme for employees and directors. Options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is usually three years. The options are settled in equity once exercised. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the company before the options vest.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows:

	30 September 2011		30 September 2010	
	Number	WAEP (pence)	Number	WAEP (pence)
Outstanding at the start of the year	3,905,200	32	1,219,500	33
Granted during the year	1,012,031	24	2,888,700	32
Forfeited during the year	(707,572)	30	(203,000)	37
Cancelled during the year	(3,748,913)	30	-	-
Outstanding at the end of the year	<u>460,746</u>	<u>28</u>	<u>3,905,200</u>	<u>32</u>

No share options were exercised during the year. 366,500 (2010 - 492,000) shares were exercisable at the end of the year. The share options outstanding at the end of the year have a weighted average remaining contractual life of 5.7 years (2010 - 8.8 years).

During the year to 30 September 2011, the following options were granted:

Date of grant	Number of ordinary shares of 1p each	Exercise period of option	Exercise price per share
21 February 2011	1,012,031	2014-2021	24p

The aggregate of the estimated fair values of the options granted in the year ended 30 September 2011 is £29,423 (2010 - £110,230).

The fair values were calculated using the Black Scholes pricing model. The inputs into the model were as follows:

	30 September 2011	30 September 2010	30 September 2009
Number of options	1,012,031	2,888,700	599,000
Weighted average share price	24p	31.5p	35p
Weighted average exercise price	24p	31.5p	35p
Expected volatility	25%	25%	25%
Expected life	4 years	4 years	5 years
Risk-free rate	1.5%	1.5%	1.5%
Expected dividend yield	0%	0%	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on the directors' best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The group recognised total expenses of £108,000 (2010 - £31,500) related to equity-settled share-based payment transactions during the year.



## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

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#### 36. ACQUISITIONS

On 21 January 2011, the company issued 500,000 new ordinary shares of 1p each at 40p per share by way of settlement of deferred consideration for the acquisition of Innovise ESM Limited by Innovise Holdings Limited

On 4 November 2010 the group acquired the Software business of Expolink Europe Limited. Goodwill arising on the acquisition of the business of Expolink Software has been capitalised. The purchase of Expolink Software has been accounted for by the purchase method of accounting. The fair value of net assets and liabilities acquired are set out below:

	£
Intangible assets	600,000
Plant and equipment	39,000
Stock	8,305
Trade and other receivables	324,277
Cash and cash equivalents	196,626
Deferred income	(568,208)
Net assets acquired	600,000
Goodwill	210,000
	<u>810,000</u>

Total consideration payable satisfied by:

Cash on completion	600,000
Deferred consideration payable in cash	210,000
	<u>810,000</u>

The deferred consideration was payable in cash on 4 November 2012. The cash consideration was financed by a loan note of £500,000 issued on 4 November 2010 and redeemable in 24 months.

The directors are of the opinion that the profit reported in these financial statements would not be materially different to that currently presented had the acquisition taken place at the commencement of the financial year.

As part of the purchase agreement in relation to the acquisition of the business of Expolink Software, sufficient warranties were put in place to appropriately adjust the purchase price in the event of non-recovery of trade receivables. As such the directors do not believe that any further provisions are necessary against the trade and other receivables.

During the year the group settled the deferred consideration of £80,000 on the acquisitions of Identifile and Rapidhost in cash.

## Innovise plc

### Notes to the consolidated financial statements for the year ended 30 September 2011

#### 37. OPERATING LEASE ARRANGEMENTS

The group as a lessee

	2011 £	2010 £
Minimum lease payments under operating leases recognised as an expense in the year	<u>125,647</u>	<u>94,300</u>

At 30 September 2011, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows

	Land and buildings 30 September 2011 £	Land and buildings 30 September 2010 £	Plant and machinery 30 September 2011 £	Plant and machinery 30 September 2010 £
Within one year	102,000	77,000	6,700	18,200
In second to fifth years	<u>249,000</u>	<u>175,000</u>	<u>9,700</u>	<u>14,500</u>
	<u>351,000</u>	<u>252,000</u>	<u>16,400</u>	<u>32,700</u>

#### 38. RELATED PARTY TRANSACTIONS

D Lean, a non-executive director of the company during the year and who resigned on 29 June 2011, is the majority shareholder of Vetting com (formerly Link Personnel Limited). Sales were made to that company of £79,954 (2010 - £68,255) and purchases from that company of £217,106 (2010 - £220,408). At the year-end a creditor of £nil (2010 - £81,902), an accrual of £83,348 (2010 - £nil) and a debtor of £33,586 (2010 - £32,522) were outstanding.

M Taylor, a director of the company, has a material financial interest in Cardinal Security Limited. Sales were made to the company totalling £259,458 (2010 - £93,198). At the year-end a debtor of £67,607 (2010 - £7,460) was outstanding.

A Onacko, a director of the company in the year, is the majority shareholder in Abilisoft Limited. Purchases were made from that company of £73,080 (2010 - £107,908) and sales to that company of £109,575 (2010 - £45,000). At the year-end a creditor of £8,100 (2010 - £18,612) was outstanding and a debtor of £nil (2010 - £15,000).

V Murria, a non-executive director of the company during the year and who resigned on 29 June 2011, is the majority shareholder of VM AV Corporate Services Limited. There were purchases of £11,250 made during the year. There were no purchases made in 2010, however at the year end there was an accrual within the accounts of £nil (2010 - £46,660), representing fees to be paid but not invoiced.

A Edwards, a director of the company, is a trustee of the Adint Charitable Trust. Adint Charitable Trust holds £250,000 of convertible loan stock 2012 which accrued interest of £25,000 (2010 - £25,000) in the year. The £250,000 convertible loan stock 2012 was issued to Adint Charitable Trust by the company in January 2009 and replaced a secured loan of the same amount which was repaid by the company.

## **Innovise plc**

### **Notes to the consolidated financial statements for the year ended 30 September 2011**

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#### **38. RELATED PARTY TRANSACTIONS (continued)**

A Edwards is a shareholder in Adint Unlimited. Adint Unlimited holds £250,000 of convertible loan stock 2012 which accrued interest of £25,000 (2010 - £25,000) in the year. The £250,000 convertible loan stock 2012 was issued to Adint Unlimited by the company in January 2009 and replaced a secured loan of the same amount which was repaid by the company.

#### **39. CONTINGENT LIABILITY**

The group received a claim from HMRC in relation to a matter which relates to a subsidiary company and which occurred prior to the acquisition by the group. It has not been possible to either assess the validity or quantum of the claim. Furthermore, the directors are satisfied that there are sufficient and appropriate indemnities and warranties in place from the vendors of the acquired subsidiary to cover any potential claim which might arise and consequently the group has no net liability.

#### **40. POST BALANCE SHEETS EVENTS**

On 21 January 2012 the Group redeemed £1,260,000 of existing loans all of which were immediately rolled over into new loans with the same lenders as follows:

£90,000 of convertible loan stock 2012 was redeemed and immediately rolled over into a new non-convertible loan repayable in March 2012. Interest of 10% per annum is payable.

£300,000 of convertible loan stock 2012 was redeemed and immediately rolled over into a new non-convertible loan repayable in November 2012. Interest of 10% per annum is payable.

£650,000 of convertible loan stock 2012 was redeemed and immediately rolled over into a new secured loan instrument known as secured loan 2014/15. This is repayable in four quarterly instalments from April 2014 and attracts an interest of 6 percentage points above HSBC base rate. The loan is secured with a second charge after the group's main lender HSBC. Secured loan 2014/15 may be redeemed early at the option of the company on 21 January 2013 and 21 January 2014.

£220,000 of non-convertible loan 2013 was redeemed early and immediately rolled over into the secured loan 2014/15 described in the previous paragraph.

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**Innovise plc**

**Innovise plc**

**Parent company accounts prepared under UK GAAP**

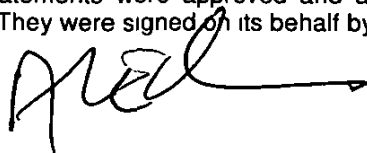
# Innovise plc

## Parent company balance sheet 30 September 2011

		30 September 2011 £	30 September 2010 £
	<i>Notes</i>		
<b>FIXED ASSETS</b>			
Tangible assets	3	118,997	136,997
Investments	4	147,729	147,729
		<u>266,726</u>	<u>284,726</u>
<b>CURRENT ASSETS</b>			
Debtors	5	13,724,784	14,165,689
Cash at bank and in hand		301,261	-
		<u>14,026,045</u>	<u>14,165,689</u>
<b>CREDITORS amounts falling due within one year</b>	6	<u>(1,600,024)</u>	<u>(954,870)</u>
<b>NET CURRENT ASSETS</b>		<u>12,426,021</u>	<u>13,210,819</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		12,692,747	13,495,545
<b>CREDITORS amounts falling due after more than one year</b>	7	(883,332)	(1,548,028)
Provisions for liabilities	8	(69,611)	(19,761)
		<u>11,739,804</u>	<u>11,927,756</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	10	2,266,007	2,253,507
Share premium account	11	1,083,917	1,083,917
Other reserves	11	7,780,236	7,812,157
Profit and loss account	11	704,763	778,175
Own shares	12	(95,119)	-
<b>SHAREHOLDERS' FUNDS</b>	13	<u>11,739,804</u>	<u>11,927,756</u>

The financial statements were approved and authorised for issue by the board of directors on 1 February 2012. They were signed on its behalf by

**Tony Edwards**  
Director



*The accompanying accounting policies and notes form an integral part of these financial statements*

## **Innovise plc**

### **Notes to the company financial statements for the year ended 30 September 2011**

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#### **1. ACCOUNTING POLICIES**

##### **Accounting convention**

The separate financial statements of the company are presented as required by the Companies Act 2006. They have been prepared under the historical cost convention and in accordance with applicable United Kingdom Accounting Standards and law.

The principal accounting policies have been applied consistently throughout the year and the preceding year.

##### **Cash flow statement**

A cash flow statement has been presented in the group financial statements.

Cash flows reported under IFRS in the group cash flow statement would not have been materially different had they been reported under UK GAAP.

##### **Interest income**

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

##### **Depreciation**

Depreciation is provided on all tangible fixed assets at rates calculated to write each asset down to its estimated residual value over its expected useful life, as follows:

Land and buildings short leasehold – over the period of the lease

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

##### **Leasing**

Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

##### **Investments**

Investments in subsidiaries are held in the company balance sheet at cost less any provisions for impairment. The company has taken advantage of merger relief provisions given in company law in respect of shares issued in exchange for shares in wholly owned subsidiary companies and has not reflected a share premium on the issue of these shares.

##### **Employee benefits**

The company operates money purchase pension scheme arrangements for employees. The assets of the scheme are held separately from those of the company. The annual contributions payable are charged to the profit and loss account.

## **Innovise plc**

### **Notes to the company financial statements for the year ended 30 September 2011**

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#### **1. ACCOUNTING POLICIES (continued)**

##### **Deferred taxation**

Deferred tax is recognised, if material, in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred at the balance sheet date. The recognition of deferred tax assets is limited to the extent that the conditions for recognition of a deferred tax asset in accordance with FRS19 have not been met.

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 currency translation**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All exchange differences are taken to the profit and loss account. There are no non-monetary assets denominated in foreign currencies.

##### **Share-based payments**

The company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the group's estimate of shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

Upon exercise of share options, the proceeds received net of attributable transaction costs are credited to share capital and, where appropriate, share premium.

Fair value is measured by use of the Black Scholes 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.

## **Innovise plc**

### **Notes to the company financial statements for the year ended 30 September 2011**

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#### **1. ACCOUNTING POLICIES (continued)**

##### **Financial instruments**

The company uses financial instruments comprising cash, liquid resources, loans and various items such as debtors, creditors and other items that arise from operations. Financial assets are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where appropriate. Interest receivable and payable is accrued and credited or charged to the profit and loss account in the period to which it relates.

Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability. Finance costs are calculated so as to produce a constant rate of charge on the outstanding liability.

Convertible loan notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the group, is included in reserves.

The interest expense on the liability component is calculated by applying the effective interest rate to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible loan note.

Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

#### **2. LOSS/PROFIT DEALT WITH IN THE PROFIT AND LOSS ACCOUNT OF THE PARENT COMPANY**

As permitted by section 408 of the Companies Act 2006, the company has elected not to present its own profit and loss account for the year.

Innovise plc reported a loss, before the payment of dividends, for the financial year ended 30 September 2011 of £200,833 (2010 - profit of £337,944).

The auditors' remuneration for audit services to the company amounted to £18,000 (2010 - £20,000).

Details of directors' emoluments are shown within the consolidated financial statements.



## Innovise plc

### Notes to the company financial statements for the year ended 30 September 2011

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#### 3. TANGIBLE FIXED ASSETS

	Short leasehold land and buildings £
<b>Cost</b>	
At 1 October 2010	154,997
Additions	-
At 30 September 2011	<u>154,997</u>
<b>Depreciation</b>	
At 1 October 2011	18,000
Charge for the year	<u>18,000</u>
At 30 September 2011	<u>36,000</u>
<b>Net book value</b>	
As at 30 September 2011	<u>118,997</u>
As at 30 September 2010	<u>136,997</u>

#### 4. INVESTMENTS HELD AS FIXED ASSETS

	Shares in group undertakings £
<b>Cost</b>	
As at 1 October 2010 and 30 September 2011	<u>4,601,915</u>
<b>Provision for diminution in value</b>	
As at 1 October 2010 and 30 September 2011	<u>4,454,186</u>
<b>Net book value</b>	
At 30 September 2011	<u>147,729</u>
At 30 September 2010	<u>147,729</u>

## Innovise plc

### Notes to the company financial statements for the year ended 30 September 2011

#### 4. INVESTMENTS HELD AS FIXED ASSETS (continued)

At the balance sheet date, the company owned more than 20% of the equity of the following undertakings

	<i>Country of registration</i>	<i>Class of holding</i>	<i>Proportion held</i>	<i>Nature of business</i>
Innovise S & S Holdings Limited	England and Wales	Ordinary shares	100%	Holding company
Roster Management Limited	England and Wales	Ordinary shares	100%	Dormant
Innovise ESM Holdings Limited	England and Wales	Ordinary shares	100%	Holding company
Ausped Limited	England and Wales	Ordinary shares	100%	Dormant
Abilitec Limited	England and Wales	Ordinary shares	100%	Dormant
Abilitec No 1 Limited	England and Wales	Ordinary shares	100%	Dormant
Innovise Solutions Limited	England and Wales	Ordinary shares	100%	Dormant
TimeGate IPR Limited	England and Wales	Ordinary shares	100%	Dormant
Innovise Software and Solutions Limited	England and Wales	Ordinary shares	100%	Software development
Personnel Automated Screening Limited	England and Wales	Ordinary shares	50%	Dormant
Innovise India Private Limited	India	Ordinary shares	100%	Software development
Innovise ESM Limited	England and Wales	Ordinary shares	100%	IT Service Management
RapidHost Limited	England and Wales	Ordinary shares	100%	Dormant
Harbrook Consultants Limited	England and Wales	Ordinary shares	100%	Dormant
Identifile Systems Limited	England and Wales	Ordinary shares	100%	Dormant
Innovise ESM Software Limited	England and Wales	Ordinary shares	100%	Software development
Innovise Enterprise Service Management Pty Ltd	South Africa	Ordinary shares	100%	Dormant

The shares in Innovise Software and Solutions Limited are held by Innovise S & S Holdings Limited

The shares in Innovise India Private Limited are held by Innovise S & S Holdings Limited (99%) and Innovise plc (1%)

The shares in Personnel Automated Screening Limited, TimeGate IPR Limited, Roster Management Limited, Innovise Solutions Limited, RapidHost Limited and Identifile Systems Limited are held by Innovise Software and Solutions Limited

The shares in Innovise ESM Limited and Innovise ESM Software Limited are held by Innovise ESM Holdings Limited

## Innovise plc

### Notes to the company financial statements for the year ended 30 September 2011

#### 4 INVESTMENTS HELD AS FIXED ASSETS (continued)

The shares in Abiltec Limited, Abiltec No 1 Limited, Innovise ESM (Private) Limited, Innovise Enterprise Service Management Pty Ltd and Harbrook Consultants Limited are held by Innovise ESM Limited

#### 5. DEBTORS

	30 September 2011 £	30 September 2010 £
<b>Amounts falling due after more than one year:</b>		
Other debtors	50,000	100,000
<b>Amounts falling due within one year:</b>		
Other debtors	34,316	-
Amounts owed by subsidiary undertakings	13,640,468	14,065,689
	<u>13,724,784</u>	<u>14,165,689</u>

#### 6. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 September 2011 £	30 September 2010 £
Bank loans and overdraft	500,000	674,197
Unsecured convertible loan notes	1,015,456	198,200
Corporation tax	-	15,486
Amounts owed to subsidiary undertakings	-	21,722
Other creditors	100	100
Accruals and deferred income	84,468	45,165
	<u>1,600,024</u>	<u>954,870</u>

## Innovise plc

### Notes to the company financial statements for the year ended 30 September 2011

#### 7. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	30 September 2011 £	30 September 2010 £
Unsecured loan stock	758,332	935,457
Bank loan	125,000	612,571
	<u>883,332</u>	<u>1,548,028</u>

#### Analysis of loans

	30 September 2011 £	30 September 2010 £
Wholly repayable within five years	2,398,788	2,420,425
Included in current liabilities	(1,515,456)	(872,397)
	<u>883,332</u>	<u>1,548,028</u>

#### Bank loan

The bank loan is repayable in quarterly instalments of £125,000 and is secured by way of a fixed and floating charge over all assets of the company and its subsidiary undertakings and by way of a cross guarantee provided by the subsidiary undertakings. The bank loan is subject to variable rates of interest based on the bank's base rate.

#### Loan stock

Loan stock comprises

	30 September 2011 £	30 September 2010 £
Unsecured convertible loan stock 2011	-	198,200
Unsecured convertible loan stock 2012	1,015,456	935,457
Unsecured non-convertible loan stock 2012	545,346	-
Unsecured non-convertible loan stock 2013	212,986	-
	<u>1,773,788</u>	<u>1,133,657</u>

The loan stock is convertible as a whole, but not in part, at the rate of one new ordinary share for every 40 pence of principal. Interest is payable at 0.5% above the Bank of England base rate on the principal outstanding.

On 21 January 2009, the company issued £800,000 of convertible loan stock 2012, redeemable on 21 January 2012. The company has the option to redeem the loan stock at any time after 21 January 2011 and the loan stock holders have the right to convert the loan stock into new ordinary shares in the company at 45 pence per share with effect from the same date. In the event that within 5 business days both parties give notice to redeem or convert the loan, as the case may be, the loan is 50% redeemed and 50% converted to shares.

## Innovise plc

### Notes to the company financial statements for the year ended 30 September 2011

#### 7. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR (continued)

The convertible loan stock 2012 holders also have the right to have their stock redeemed or converted on a sale of the company and the company has the right to redeem the loan stock on any such sale

The convertible loan stock 2012 bears interest at 10% per annum which is rolled up and payable only on redemption. The directors are of the opinion that the equity component of the convertible loan stock 2012 is not material.

On 4 November 2010 the company issued £500,000 of non-convertible loan stock 2012, redeemable on 4 November 2012. The non-convertible loan stock 2012 bears interest at 10% per annum which is rolled up and payable only on redemption.

#### *Non-convertible loan stock 2013*

On 6 February 2011 the company issued £200,000 of non-convertible loan stock 2013, redeemable on 6 February 2013. The non-convertible loan stock 2013 bears interest at 10% per annum which is rolled up and payable only on redemption.

#### 8. PROVISIONS FOR LIABILITIES

	Deferred tax provision	Future administration costs	Dilapidations	Total
	£	£	£	£
As at 1 October 2010	7,761	12,000	-	19,761
Provision charged to profit and loss account	(1,150)	-	63,000	61,850
Transfer to profit and loss account	-	(12,000)	-	(12,000)
As at 30 September 2011	6,611	-	63,000	69,611

The dilapidations provision represents management's best estimate of dilapidation costs accrued to date in respect of leasehold properties. It is expected that the dilapidation provision will become payable by December 2012.

#### 9. SHARE-BASED PAYMENT TRANSACTIONS

##### Equity-settled share-based payments transactions

The company has an EMI share option scheme for employees and directors. Options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is usually three years. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the company before the options vest.

## Innovise plc

### Notes to the company financial statements for the year ended 30 September 2011

#### 9. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows

	30 September 2011		30 September 2010	
	Number	WAEP (pence)	Number	WAEP (pence)
Outstanding at the start of the year	3,905,200	32	1,219,500	33
Granted during the year	1,012,031	24	2,888,700	32
Forfeited during the year	(707,572)	30	(203,000)	37
Cancelled during the year	(3,748,913)	30	-	-
Outstanding at the end of the year	<u>460,746</u>	<u>28</u>	<u>3,905,200</u>	<u>32</u>

No share options were exercised during the year 366,500 (2010 - 492,000) shares were exercisable at the end of the year. The share options outstanding at the end of the year have a weighted average remaining contractual life of 5.7 years (2010 - 8.8 years).

During the year to 30 September 2011, the following options were granted

Date of grant	Number of ordinary shares of 1p each	Exercise period of option	Exercise price per share
21 February 2011	1,012,031	2014-2021	24p

The aggregate of the estimated fair values of the options granted in the year ended 30 September 2011 is £29,423 (2010 - £110,230).

The fair values were calculated using the Black Scholes pricing model. The inputs into the model were as follows

	30 September 2011	30 September 2010	30 September 2009
Number of options	1,012,031	2,888,700	599,000
Weighted average share price	24p	31.5p	35p
Weighted average exercise price	24p	31.5p	35p
Expected volatility	25%	25%	25%
Expected life	4 years	4 years	5 years
Risk-free rate	1.5%	1.5%	1.5%
Expected dividend yield	0%	0%	0%

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on the directors' best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The group recognised total expenses of £108,000 (2010 - £31,500) related to equity-settled share-based payment transactions during the year.

## Innovise plc

### Notes to the company financial statements for the year ended 30 September 2011

#### 10. SHARE CAPITAL

	30 September 2011 £	30 September 2010 £
<b>Authorised</b>		
100,000,000 ordinary shares of 1p each	1,000,000	1,000,000
735,000,000 deferred shares of 1p each	7,350,000	7,350,000
	<u>8,350,000</u>	<u>8,350,000</u>
<b>Allotted, called up and fully paid</b>		
40,400,702 (2010 - 39,150,702) ordinary shares of 1p each	404,007	391,507
186,200,000 deferred shares of 1p each	1,862,000	1,862,000
	<u>2,266,007</u>	<u>2,253,507</u>

On 21 January 2011, the company issued 1,250,000 new ordinary shares of 1p each at 40p per share by way of settlement of deferred consideration for the acquisition of Innovise ESM Limited by Innovise ESM Holdings Limited

Details of outstanding options in existence over unissued shares are set out in note 9

The deferred shares have no dividend or voting rights. As regards capital, the holders shall be entitled to the subscription price of such shares on winding up only after the holders of the ordinary shares have received £10 million in respect of each ordinary share

# Innovise plc

## Notes to the company financial statements for the year ended 30 September 2011

### 11. STATEMENT OF MOVEMENTS ON RESERVES

	Share premium account £	Other reserves £	Profit and loss reserve £	Total £
At 1 October 2010	1,083,917	7,812,157	778,175	9,674,249
Other reserves movement	-	(12,500)	-	(12,500)
Transfer from profit and loss for the year	-	-	(200,833)	(200,833)
Transfer from equity reserve	-	(19,421)	19,421	-
Share-based payments	-	-	108,000	108,000
At 30 September 2011	<u>1,083,917</u>	<u>7,780,236</u>	<u>704,763</u>	<u>9,568,916</u>

#### Other reserves

Capital redemption reserve

Balance at 1 October 2010  
and 30 September 2011

29,054

Equity reserve

Balance at 1 October 2010

19,421

Transfer to profit and loss  
account reserve

(19,421)

Balance at 30 September  
2011

-

Merger reserve

Balance at 1 October 2010

6,066,325

Premium on shares issued on  
acquisitions in the year

487,500

Balance at 30 September  
2011

6,553,825

Shares to be issued

Balance at 1 October 2010

500,000

Shares issued

(500,000)

Balance at 30 September  
2011

-

Non-distributable profits  
reserve

Balance at 1 October 2010  
and 30 September 2011

1,197,357



## Innovise plc

### Notes to the company financial statements for the year ended 30 September 2011

#### 11. STATEMENT OF MOVEMENTS ON RESERVES (continued)

The merger reserve arising on acquisition in the year relates to the premium on shares issued in consideration for the deferred consideration arising on the acquisition of the entire share capital of Innovise ESM limited

The non-distributable profit reserve relates to profits realised by the former subsidiary company Data Technology Limited on the disposal of goodwill to Innovise Solutions Limited of £1,057,594 and on the disposal of shares in a subsidiary company of Data Technology to Innovise Software and Solutions Limited of £139,763. The parent company received a dividend out of the profits realised on these disposals. The amount of the dividend attributable to these profits does not however represent a realised profit of the company because the gain is reflected in assets held by other group companies. The directors consider it appropriate to recognise these profits separately in the company's balance sheet because they are not available for distribution to shareholders.

The equity reserve related to the equity element of convertible loans repaid in the year. As this loan has been repaid the reserve has been released to distributable reserves.

#### 12. OWN SHARES

	£
Balance at 1 October 2010	-
Acquired in the period at cost	95,119
Balance at 30 September 2011	<u>95,119</u>

The own shares reserve represents the cost of shares in Innovise plc purchased in the market and held in Treasury. 544,105 shares are held in Treasury.

#### 13. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	30 September 2011 £	30 September 2010 £
(Loss)/profit for the year retained	(200,833)	337,944
Purchase of own shares into treasury	(95,119)	-
Adjustment for share-based payment	108,000	31,500
Net additions to shareholders' funds	<u>(187,952)</u>	<u>369,444</u>
Opening shareholders' funds	11,927,756	11,558,312
Closing shareholders' funds	<u>11,739,804</u>	<u>11,927,756</u>

## **Innovise plc**

### **Notes to the company financial statements for the year ended 30 September 2011**

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#### **14. RELATED PARTY TRANSACTIONS**

A Edwards, a director of the company, is a trustee of the Adint Charitable Trust. Adint Charitable Trust holds £250,000 of convertible loan stock 2012 which accrued interest of £25,000 (2010 - £25,000) in the year. The £250,000 convertible loan stock 2012 was issued to Adint Charitable Trust by the company in January 2009 and replaced a secured loan of the same amount which was repaid by the company.

A Edwards is a shareholder in Adint Unlimited. Adint Unlimited holds £250,000 of convertible loan stock 2012 which accrued interest of £25,000 (2010 - £25,000) in the year. The £250,000 convertible loan stock 2012 was issued to Adint Unlimited by the company in January 2009 and replaced a secured loan of the same amount which was repaid by the company.