Annual Report & Accounts

for the year ended 31 August 2011

Digital leaders in a mobile world

About 2ergo

2ergo is the international mobile business and marketing solutions company. It combines innovative proprietary mobile technologies and professional services to help organisations of all sizes to develop and execute their mobile strategy.

Organisations such as the Australian Broadcasting Corporation, Vodafone Hutchison Australia, Fox Sports, Fox Business, Orange, Aviva, Fidelity, Transport for London, Ladbrokes, Times of India, Airtel, PizzaExpress, O2 and Procter & Gamble have all benefited from 2ergo's proprietary end-to-end mobile solutions to increase sales, mobilise business processes, reduce costs and enhance customer relationships.

2ergo communicates with all types of mobile users, millions of times each day through innovative mobile business solutions that incorporate search, security, advertising, location, proximity, coupons, tickets, mCommerce and data network analytics, enabling fully-integrated and personalised one to one marketing communications. Underpinned by award-winning technology, 2ergo offers a range of unique propositions for all stages of the customer journey from mobile presence and acquisition through to retention and loyalty.

> **"56% of people said that they would use a personalised loyalty scheme on their mobile. Despite this, 94% of retailers have no loyalty schemes operating via mobile technology."**
>
> *2ergo/YouGov, 2011*

Headquartered in the UK, 2ergo has been a pioneer of enabling innovative mobile business solutions across multiple sectors and geographies since 1999. Its international presence spans North America, Latin America, India and Australia. 2ergo is AIM listed on the London Stock Exchange (AIM: RGO).

Management review

"Significant new business in all regions of operation."

Overview

The Group has continued to make solid progress during the year, delivering key operational objectives in terms of product and service development, and securing significant new business in all regions of operation.

The Group's investment in core technology development has strengthened its ability to provide customers with industry-leading services. It has also responded to changing market conditions by focusing its sales and marketing strategy on fast-growing and high-margin services.

As the mobile partner to major international corporations, the Group's core focus is on working with its clients to grow their revenues through effective customer acquisition, retention and loyalty campaigns in the mobile space. This involves providing them with integrated solutions, not just one-off products or services. It thereby directly aligns the Group with the business needs of organisations looking to leverage the mobile channel, when many are seeking new revenue opportunities to offset declining business from traditional, and often more costly, sales channels.

During the year, the Group took the decision to suspend, and ultimately not re-connect, some legacy client services. This followed a detailed review of the impact of regulatory changes associated with the implementation of the PhonepayPlus 12th Code of Practice. The Group also successfully managed a number of other regulatory challenges from PhonepayPlus in respect of its legacy business. As previously advised to the market, these regulatory issues and the associated management time and cost materially impacted the Group's income streams and profitability during the year.

The mobile market has continued to evolve at a rapid pace, becoming unrecognisable to the market of only two years ago. The rush to "app" development is having a direct impact on margins and the Group believes that this area is becoming commoditised and unattractive, as well as difficult to scale through the use of "in-house" development teams.

As a result, the Group has taken the strategic decision to reduce its exposure to applications development. 2ergo will now manage the delivery of this area of the business through working in close partnership with external application development partners. This move will result in a reduction in the Group's cost base.

The Group's progress in delivering its key objectives, in terms of both its operational development and securing significant new business in all regions of operation, is expected to drive the business forward into 2012.

Partnerships

2ergo was selected as the exclusive mobile technology and platform development provider to Microsoft's Innovation Outreach Program (IOP) for 2011. The IOP is a premier community of senior innovation executives from 30 top global companies, including 3M, Procter & Gamble and NCR.

This relationship has already delivered a substantial proof of concept trial for a leading US restaurant chain. 2ergo is delivering an end-to-end mobile solution to attract footfall, create loyalty and generate more profitable customer relationships. The initial trial is being implemented across 60 stores in the US between August and December, with the potential to be rolled out to a further 5,000 stores across the United States.

The partnership with Gondola Group to develop an end-to-end mobile solution for its PizzaExpress restaurant chain has proved to be very successful. This solution enables PizzaExpress customers to search for their nearest restaurant, make and confirm bookings, and pay their bill via PayPal, using their smartphone, by means of an integrated payment system linked to the restaurant chain's point of sale systems. The award winning iPhone "app" achieved more than 100,000 downloads in the first week of launch. As a result of 2ergo's success in this sector, the Group has recently signed a contract to deliver a mCommerce solution and a series of smartphone applications to a large Australian restaurant chain encompassing more than 300 outlets.

Pizza Express

The Challenge

PizzaExpress wanted to improve the experience of eating out in the restaurant through a mobile solution which offered customers the opportunity to ‘pay and leave’ when they wanted to.

The mobile solution needed to be useful, innovative and ground breaking without taking away from PizzaExpress’s well-known customer experience or its customer service.

The Solution

Working in partnership with 2ergo PizzaExpress launched an in-restaurant payment system that makes waiting to pay the bill a thing of the past. Fully integrated with PayPal and Torex Till Systems customers can pay their bills automatically via their smartphones.

The Results

The ground-breaking app has allowed PizzaExpress to revolutionise retail payment methods and bring online payment to the high street.

Launched in June 2011, the app was downloaded more than 100,000 times in the first week and achieved the 200,000 download target well ahead of predictions.

"Our coupon redemption facility creates a truly end-to-end service."

As a result of the partnership with U.S.Cellular announced in May, 2ergo is providing the operator with a comprehensive managed service encompassing mobile marketing consultancy, project management and creative services, as well as implementing mobile marketing campaigns to U.S.Cellular's 6.1 million customers. This model of providing managed mobile services to deliver quantifiable marketing results has subsequently been deployed on a wider scale with well-established clients, notably AT&T.

A key strategic partnership with Callcredit Information Group, a consumer data and marketing firm, has further enhanced the Group's mobileDNA offering. This is a proprietary database of over 10 million mobile numbers, which contains insights from users' mobile activity and transactions from the Group's 11 years' experience in mobile marketing campaigns and services. This new partnership will enable the two companies to provide their corporate customers with mobile business solutions that target users, based on their mobile behaviour, as well as their financial and social background.

Product development

The Group made further progress with the development of key components of its core technology, the Multiserve Platform, in particular harnessing mobileDNA and the Group's consumer analytical and profiling module, with VoucherNet, 2ergo's patented mobile couponing solution. Pivotal to this has been the extensive work carried out integrating VoucherNet with 2ergo's EPOS manufacturing partners. This means that the Group is now able to process mobile coupons, vouchers and tickets at the point of sale, through a wide range of EPOS terminal types. This integrated coupon redemption facility creates a truly end-to-end service, enabling customers to pay their retail bill via the smartphone, as utilised by PizzaExpress.

Since 2004 the "un-integrated" version of VoucherNet has delivered over 30 million mobile coupons worldwide. By combining this technology with 2ergo's mobileDNA database, the Group has created a compelling customer proposition for organisations that want to use mobile vouchers and coupons to drive traffic or footfall, incentivise and reward customers, and measure response rates through one fully integrated service. This solution has significant appeal to the retail sector, and the Group is in discussion with a number of major retailers with a view to integrating mobile technologies into their multi-channel marketing strategies.

The fact that the Group has achieved ISO 27001 information security standard underlines 2ergo's commitment to best practice. This standard is not mandatory, but it reaffirms 2ergo's commitment to reaching the highest standards in industry regulation and client satisfaction. Current regulation in and around mobile payments and marketing continues to be a concern, as industry guidelines are weak at best, and left open to interpretation by inconsistently applied regulation of client services.

"Mobile use is growing faster than all of Google's predictions."

Google, 2011

2ergo has made a strategic decision to move towards securing all data transfer services at the earliest opportunity. Mobile security will become a major issue for the wider mobile market over the next few years and by adopting this strategy early 2ergo will be able to further differentiate its offer.

In the shorter term, coupon and ticketing security is an imminent challenge for organisations operating in that space. 2ergo's security technology overcomes these issues. The Group will continue to develop its mobile security and payment technology 'Secure Connect', a secure mobile communication protocol for smartphone apps and transactional mobile websites, which will become a key differentiator in coming years.

Geographic Review

During the year, 2ergo has continued to build a healthy pipeline of business, and secured significant new business wins across all regions of operation.

U.S.Cellular

The Challenge
To build deeper customer relationships using personalised, engaging and innovative mobile marketing. Also, to improve customer satisfaction and promote new products and services to increase average revenue per user and awareness of U.S.Cellular in the market.

The Solution
An innovative approach to providing a turnkey solution that included comprehensive access to previously unexplored mobile channels.

2ergo hosts and operates the mobile messaging, mobile website, branded QR and mobile voucher platforms, allowing U.S.Cellular to connect with millions of customers and event attendees. A key differentiator is the real-time and post-campaign analysis which is funnelled into strategic guidance and market intelligence that can be used to better understand U.S.Cellular's customers.

The Results
Hundreds of campaigns have been developed and millions of messages have been sent that are tightly aligned with U.S.Cellular's marketing goals and business strategy giving it the ability to precisely target subscribers, promote new services and offer innovative ways for consumers to interact with its brand.

Some of the programmes and successes to date include:

- innovative Tailgate for Tickets QR & mSite campaign saw over 3,200 scans in the first few weeks, providing personal brand interactions and driver into retail stores
- increased adoption of new services and applications with conversion rates up to 24%
- streamlined customer service through FAQ mobile sites with the goal of reducing call centre volume
- automated bill reminders that reduce churn of pre-paid customers

"This new approach, embracing consultation, execution and analytics, has paid dividends."

The Group continues to deliver "Orange Wednesdays", widely perceived as the most successful mobile coupon and redemption campaign in the UK. Interactive, location-sensitive mobile solutions have also been implemented for Visit England, which provides details and images for thousands of England's top attractions, and payasUgym. The latter is a rapidly growing business offering a 'pay as you go' service across multiple gym chains, within which customers are able to redeem prepaid gym vouchers at reception via their mobile devices.

> **"37% of adults and 60% of teenagers described themselves as "addicted" to their smartphone."**
>
> *Ofcom, 2011*

2ergo's work with Transport for London (TFL) is part of a four year contract to develop and manage a mobile service platform for its Journey Planner services portfolio ahead of the Olympic Games, covering London Underground, Docklands Light Railway, bus, cycle and taxi information. The Group's work with TFL, Visit England and similar clients provides 2ergo with the blueprint and strategy for the roll out of other location-based services.

2ergo has continued to grow in Australia by working with clients such as the Australian Broadcasting Corporation, Vodafone Hutchison Australia and Nine MSN and winning several new clients in new sectors. A three-year agreement with the Australian Securities Exchange (ASX) was agreed in October 2010. This enables the ASX to deliver content and equity prices to investors and market followers, allowing users to view and search real-time company announcements via alerts, 'push notifications' and PDF downloads.

Progress has been made in the retail sector, with a two-year agreement with Fantastic Holdings in addition to the success in building and supporting mobile sites for leading auto retailer Automotive Holding, house builder Alcock Brown Neaves and St George Bank. 2ergo Australia has also signed agreements to build smartphone solutions for AlphaPharm, Penguin and Eagle Boys Pizza.

In the US, the Group continues to deepen its relationship with key clients through the development of new initiatives to enhance their mobile propositions. The business has transitioned its engagement model to a managed, solutions-sales approach, thereby differentiating the business from competitors typically offering single products. This new consultative approach, embracing consultation, execution, and analytics, has paid dividends and has been the foundation of significant new client engagements, such as those with Microsoft and U.S.Cellular detailed above. It has also served to expand the engagement with existing key accounts such as AT&T and Procter & Gamble.

> **"21% of consumers would spend more if a brand had provided relevant timely offers."**
>
> *2ergo/YouGov, 2011*

2ergo has continued its positive momentum in India. The Group strengthened its client base in the media sector by signing deals for iPad applications with Radio One and India Today Group, both leading national media companies, thereby building on the Group's previous success in delivering mobile services for the prestigious Times of India group.

2ergo has also made good progress in the Indian retail sector following the signing of a number of new contracts including one with Samsung for an SMS based application which helps consumers to locate their nearest stockist. The FMCG sector also saw 2ergo successfully build a number of IVR (Interactive Voice Response) applications for Procter & Gamble and Marico that helped these companies extend their reach to the large number of Indian consumers that are neither English speaking nor Internet users.

Orange Wednesdays

The Challenge
To differentiate Orange's brand and improve customer retention and to create an innovative loyalty campaign.

In partnership with 2ergo, Buongiorno and the UK cinema network in 2004, (supported by a national media campaign) Orange launched Orange Wednesdays – offering Orange customers the chance to receive 'two-for-one' cinema tickets every Wednesday, but without affecting the cinemas' box office transaction times.

The Solution
To deliver against both organisations' priorities; Orange chose to use 2ergo's end-to-end couponing and voucher solution, enabling customers to easily take up the offer.

After texting FILM to 241, customers receive a 'two-for-one' unique code. The code is scanned/entered into the participating outlets' EPOS system or behind the till GPRS enabled unit. The inbuilt two-way security system then validates the user and the coupon number before the ticket is issued. Orange is able to manage and track coupons issued as well as receive real time reports on the campaign.

The Results
This is now the longest running, most successful mobile marketing campaign since it was launched in 2004. Cinema visits have increased significantly with Wednesday continuing to be the most popular day of the week, outside of the weekend.

"The Group continued its investment in the development of its patented technology."

Financial Review

On 1 September 2011 the 12th Code of Practice (the Code) issued by PhonepayPlus, the phone-paid services regulator, came into effect. The Code is principally self-regulating on the industry and sees the mobile network operators become more accountable for ensuring compliance.

As announced by the Group on 14 June 2011, in the run up to the Code becoming effective, the mobile network operators adopted their own operating principles based on their individual interpretations of the Code. As a result the Group put on hold some client services pending a detailed audit of those services to ensure that they were compliant with each individual network's particular interpretation of the Code.

Following the audit, the Group took the decision not to reconnect some clients' non-core services. Primarily as a result of these actions, together with continued active management by the Group in reducing the scale of its low margin wholesale operations, revenue for the year was £17.7 million (2010: £21.4 million).

2ergo continues to generate revenue in three ways: from initial set up fees, from ongoing monthly fees and from recurring transactions. Income from transactional and monthly fees accounted for 88% of total revenue and 83% of total gross profit. The gross margin on these fees rose from 46% in 2010 to 53%.

Gross profit was £9.9 million (2010: £10.6 million) with gross profit margins increasing from 50% to 56%, due to the change in mix of sales as shown above.

Overheads were £12.6 million (2010: £11.2 million). Of this increase, £0.7 million relates to additional depreciation and amortisation of the Group's patented technology and £0.2 million relates to the non-cash IFRS 2 share based payment charge with the remainder primarily being the full year annualised effect of the Group's 2010 investment within the mobile market.

EBITDA, before the IFRS 2 share based payment charge, was £10,000 (2010: £1.4 million). Of the £2.1 million amortisation charge (2010: £1.5 million), £0.3 million (2010: £0.3 million) was in respect of acquisitions made by the Group.

Net interest charges for the year were £0.1 million (2010: £0.2 million) and relate to IAS 23 notional interest charges in respect of the deferred consideration on the acquisition in 2009 of Activemedia Technologies.

Group loss before tax was £2.8 million (2010: £0.8 million). After a tax credit of £0.2 million (2010: £0.3 million), the basic loss per share was 7.69p (2010: 1.55p).

The Group continued its investment in the development of its patented technology and invested £4.6 million (2010: £5.1 million) in its hardware, software licences and product and platform development.

	Revenue			Gross Profit		
	2011 £000	2010 £000	% Change	**2011 £000**	2010 £000	% Change
Direct/Business Partner	**12,421**	12,457	0%	**9,641**	10,161	-5%
Wholesale Reseller Channel	**5,247**	8,966	-41%	**251**	455	-45%
	17,668	21,423	-18%	**9,892**	10,616	-7%

VisitEngland

The Challenge

To modernise visitor information by publishing VisitEngland content on mobile devices, whilst being functional, engaging and driving visitors to the travel content/readers' tips from The Guardian.

"The Enjoy England app is a first for the tourist board, offering visitors over a thousand ideas on the best that England can offer."

Tim Holt, Head of Marketing at VisitEngland

The Solution

To be able to deliver relevant content on destinations, attractions and days out using location-based GPS functionality.

To give access to over 1,000 ideas and information on places and attractions. Users can also personalise their search according to indoor/outdoor activities, or the most popular. The app includes free access to travel content and readers' tips from The Guardian and ideas from www.enjoyengland.com.

The Results

VisitEngland has remained competitive, ensuring the quality of its visitor information online and starting the organisation's modernisation programme.

Launched in April 2011, the app was downloaded more than 23,500 times in the first four months and has received great reviews – "really useful, great for holidays but also for some cool places nearer home that I didn't even know were there" and "full of great holiday ideas at the touch of a button".

> *"Opportunities across the mobile sector continue to grow and develop internationally."*

The successful placing of 2.4 million shares in February 2011, raising £2.9 million net proceeds, allowed certain technology developments to be brought forward as well as providing additional working capital. This financing has meant 2ergo's patented loyalty technology has been developed ahead of schedule and is already gaining significant interest and traction with major retail brands.

Cash balances at 31 August 2011 were £2.2 million (2010: £1.5 million) with no debt. At 30 November 2011, the net cash balance stands at approximately £1 million.

Current trading and outlook

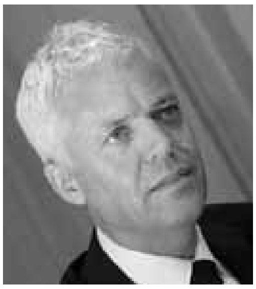
The Group sales pipeline continues to build and current trading is in line with the Board's expectations. Although deals are taking longer to close than anticipated due to the current economic climate, the Board believes that this is being counter balanced by a fuller pipeline.

The Group has made solid progress and is in a good position to capitalise on the growth of the market. Mobile devices are now used by 76% of the world's population and are looked at on average 150 times per day, they also have unique characteristics of always being on, location aware, personally targetable and increasingly being able to interact at point of sale. Major brands are therefore increasingly incorporating the mobile channel into their marketing and advertising strategies.

Similarly, 2ergo's own research has found that consumers who use a smartphone to browse the internet would feel comfortable making a purchase via mCommerce and one in 10 retail searches online now takes place on a mobile device. These figures are supported by Google, which reports that between 10% and 15% of all searches on Google's site are coming from mobile phones.

Opportunities across the mobile sector continue to grow and develop internationally and the Board believes 2ergo is extremely well positioned to leverage its 11 year investment in market leading mobile technology and intellectual property in the coming years.

Board of directors



Neale Graham
Chief Executive Officer/Founder

Neale has an extensive background in running telecommunication, software development and marketing organisations. He has successfully built and operated businesses within the information technology and telecommunications sectors for over 25 years. Neale has led 2ergo since its incorporation in 1999 and as Chief Executive Officer leads the overall Group strategy.

Barry Sharples
Executive Director/Founder

Barry qualified as a mechanical and production engineer before gaining information technology and telecommunications experience in the areas of engineering, product development, sales and marketing. He and Neale Graham have worked together for over 25 years and immediately prior to setting up 2ergo they sold their previous business to NCH Marketing Services, at the time the largest global coupon settlement and loyalty programme operator.

Jill Collighan
Group Finance & Strategy Director

Jill qualified as a chartered certified accountant in 1994, initially joining Lathams before leaving to set up her own accountancy consultancy business. Jill has worked with 2ergo since 2002 and has been a director since 2004. She now has executive responsibility for finance, human resources and investor relations.

Keith Seeley
Non-executive Chairman

Keith qualified as a chartered accountant in 1974, working with Cooper Brothers and Lathams. As managing partner of Lathams he oversaw its sale to Tenon plc in 2001 before becoming executive chairman of Target Accountants Limited. Keith has been a non-executive director of 2ergo since 2001 and has been a member of the audit and remuneration committees since 2004.

Martin Caller
Non-executive Director

Martin is an experienced corporate lawyer having spent over 30 years working in the corporate and corporate finance field following qualification in 1974. He is a Consultant in the Corporate Finance team at law firm Pannone. Martin has been a non-executive director of 2ergo since 2001 and has been a member of the audit and remuneration committees since 2004.

Directors' report

The directors present their annual report, the audited consolidated financial statements and the audited Company financial statements for the year ended 31 August 2011.

Principal activities, business review and future developments

The principal activity of the Group in the year under review was the provision of mobile strategy and mobile marketing solutions.

A detailed review of the business, together with the outlook for the future, is contained in the Management review on pages 2 to 10, which forms part of the Directors' report.

Corporate status

2ergo Group plc is a public limited company incorporated in England & Wales with company number 5010663. The Company has its registered office at 4th Floor, Digital World Centre, 1 Lowry Plaza, The Quays, Salford, Manchester, M50 3UB.

Directors

NS Graham
J Collighan
BA Sharples
K Seeley
MS Caller

The Company has agreed to indemnify its directors against third party claims which may be brought against them and has put in place a directors' and officers' insurance policy.

Directors' remuneration and share options

Remuneration in respect of the directors was as follows:

	31 August 2011 Aggregate emoluments and fees £000	**31 August 2011 Short term benefits £000**	**31 August 2011 Pension costs £000**	31 August 2010 Aggregate emoluments and fees £000	31 August 2010 Short term benefits £000	31 August 2010 Pension costs £000
BA Sharples	**108**	**4**	**21**	106	4	21
NS Graham	**108**	**4**	**21**	106	4	21
J Collighan	**116**	**1**	**4**	114	1	3
K Seeley	**30**	**–**	**–**	30	–	–
MS Caller	**15**	**–**	**–**	15	–	–

The directors hold the following share options:

	Options over ordinary shares of 1p each	
	31 August 2011	31 August 2010
BA Sharples	**132,383**	132,383
NS Graham	**132,383**	132,383
J Collighan	**764,204**	364,204
K Seeley	**–**	–
MS Caller	**–**	–

On 20 December 2010 J Collighan was granted options over 400,000 shares at an exercise price of 70.0p. The market price of the Company's shares at the end of the financial year was 65.0p and the range of the market price during the year was between 63.0p and 159.5p.

Substantial shareholdings

At 29 November 2011, the directors have been notified of the following beneficial interests in excess of 3% of the issued share capital of the Company (excluding those shares held in treasury).

	Total shares	%
Aviva plc	5,428,774	15.38
BA Sharples	5,233,822	14.83
NS Graham	5,233,822	14.83
N Wray	4,960,782	14.05
Standard Life Investments	1,175,000	3.33
T Bladon	1,110,900	3.15

Corporate governance

The Board of directors, so far as it is practicable and to the extent appropriate, having regard to the size of the Group, intends to continue to comply with the main provisions of the principles of good corporate governance.

The Board holds regular meetings and is responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure, key personnel appointments and key performance indicators. Details of the Group's financial key performance indicators, which include revenue, gross profit, operating profit and the Group's cash balance are included in the Financial review section of the Management review on pages 8 to 10. The Group's non-financial key performance indicators include platform, system and application availability and latency and customer service and satisfaction levels.

The Board has established a Remuneration Committee consisting of all non-executive directors, currently MS Caller and K Seeley. It reviews the performance of executive directors and sets the scale and structure of their remuneration and other terms of their service agreements with due regard to the interest of shareholders. In exercising this role, the Committee's Terms of Reference require it to comply with the relevant provisions of the Combined Code on Corporate Governance published in June 2008.

The Board has also established an Audit Committee which consists of all current non-executive directors. The Committee meets at least twice a year, linked to the timing of the publication of the Group's results. It assists the Board in meeting its responsibilities in respect of external financial reporting and internal controls. The Audit Committee also keeps under review the scope and results of the external audit. In addition it considers the cost-effectiveness, independence and objectivity of the auditor, taking into account the non-audit services provided by it. The executive directors and external auditor normally attend meetings by invitation.

Research and development

Details of the Group's policy for the recognition of expenditure on research and development are set out in note 1 of the consolidated financial statements.

Share capital

During the year, the Company issued 197,892 (2010: 116,261) ordinary shares pursuant to a tranche of the contingent consideration due on the acquisition of the entire issued share capital of Activemedia Technologies Limited in 2009. 2,380,953 ordinary shares were issued during the year through a Placing to existing shareholders at a price of £1.26 per share.

The Company holds 899,726 (2010: 899,726) ordinary shares as treasury shares. At 31 August 2011, the number of ordinary shares held in treasury represented 2.5% (2010: 2.7%) of the total issued share capital of the Company. Details of other changes in the Company's share capital are set out in note 14 of the consolidated financial statements.

Risk management objectives and policies

Details of the Group's financial risk management objectives and policies are set out in note 13 of the consolidated financial statements. The key non-financial risks that the Group faces are listed below:

Impact of new and evolving technology

The mobile technology market is particularly characterised by rapid technological change with frequent variations in user requirements and preferences, frequent product and service introductions embodying new technologies and the emergence of new industry standards and practices. Therefore the Group's forecasts make assumptions over wider market acceptance of new and evolving mobile technology. These forecasts are built up by management based on over 80 combined years' experience of the mobile industry. Exposure to the risk of delays in market acceptance of the Group's technology is mitigated by the broad suite of products now offered by the Group and the range of territories in which the Group now operates, not all of which are at the same stage of market development, which presents the Group with further opportunities.

Proprietary technology

The Group currently derives a competitive advantage from its proprietary Multiserve platform and its integrated application suite. Patents are in place over certain of the Group's technology. If the technology used by the Group is alleged to infringe the proprietary rights of others, or if others infringe the Group's rights, the Group may be forced to seek licences, re-engineer its services, engage in expensive and time-consuming litigation or cease particular activities. This risk is mitigated by the constant evolution of the Group's platform, the unique and well established way in which the application suites are combined which provides product differentiation from the rest of the market and the patents and non-disclosure agreements that the Group has in place.

Recruitment and retention

Technological competence and innovation is critical to the Group's business and depends on the expertise of the directors and key employees and the work of technically skilled employees. Whilst the Group has entered into contractual arrangements and offers competitive reward and benefit packages, including long-term incentive schemes, with the aim of securing the services of these directors and employees, as is the case within all companies, the retention of their services is not guaranteed. The market for the services of these types of employees is competitive and therefore the Group may not be able to attract and retain these employees. The Group's HR department is key to the ongoing process of rewarding and developing the best people to further the Group's innovative technology and support its clients.

Development of regulation

Regulation of mobile services varies by country and evolves over time. In particular, increased and varying global governmental regulations may inhibit the growth of the market in certain territories. The Group mitigates this risk through the use of in-house and external regulatory specialists and by ensuring local knowledge of government regulations through the regional operational teams. In the United Kingdom, the adoption of a new regulatory Code of Practice in the year has been implemented by each mobile network operator, based on their individual interpretations. As a result the Group put on hold some client services pending a detailed audit of those services to ensure that they were compliant with each individual network's particular interpretation of the new Code of Practice. Following the audit the Group took the decision not to reconnect some clients' non-core services. No further regulatory changes are anticipated in the foreseeable future.

Economic climate

The Group is subject to the general risks to which all companies operating in the same market are subject, including the general macro-economic climate. A number of the Group's products provide clients with the opportunity to optimise business processes and offer significant and fast returns on investment. Given the strength of the product portfolio and propositions of the Group and its global coverage, and considering the Group's expectations for future performance, the directors believe that the Group is well positioned to manage this risk and are confident of the future growth of the Group. The risk is mitigated by the range of territories in which the Group now operates, not all of which are at the same stage of market development and therefore are not impacted in the same way by global economic conditions. Given the Group's positioning, its cash balances and available facilities, the directors expect the Group to continue in operational existence for the foreseeable future and thus continue to adopt the going concern basis of accounting in preparing the financial statements (see note 1).

Related party transactions
Details of the Group's transactions and year end balances with related parties are set out in note 19 of the consolidated financial statements.

Dividends
The directors do not recommend the payment of a dividend (2010: £nil).

Supplier payment policy
It is the Group's and the Company's policy to pay its suppliers in accordance with the terms and conditions agreed in advance of each transaction once satisfactory performance of service or receipt of goods has been achieved.

Group creditor days at the year end were 36 days (2010: 33 days) of average supplies for the year.

Off-Balance sheet arrangements
The Group does not have any financing arrangements not included in the Statement of financial position.

Auditor
Grant Thornton UK LLP have expressed willingness to continue in office. In accordance with Section 489(4) of the Companies Act 2006 a resolution to re-appoint Grant Thornton UK LLP will be proposed at the forthcoming Annual General Meeting.

By order of the Board

JG Esson
Company Secretary

4th Floor, Digital World Centre
1 Lowry Plaza
The Quays
Salford
Manchester
M50 3UB
30 November 2011

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for the Group and the parent Company for each financial year. As required by the AIM rules of the London Stock Exchange the directors have prepared financial statements for the Group in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs) and have elected to prepare the financial statements for the parent Company in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom accounting standards and applicable laws). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent Company and of their profit or loss for that period. In preparing each of the Group and the parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable 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 Group will continue in business.

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

In so far as each of the directors is aware:

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

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

Report of the independent auditor to the members of 2ergo Group plc

We have audited the financial statements of 2ergo Group plc for the year ended 31 August 2011 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated statement of financial position, the Consolidated statement of changes in equity, the Consolidated statement of cash flows, the parent Company balance sheet 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 reporting 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of directors' responsibilities set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 31 August 2011 and of the Group's loss 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.

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 Group 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.

Stuart Muskett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
30 November 2011

Consolidated income statement

for the year ended 31 August 2011

	Note	**2011 £000**	2010 £000
Revenue	2	**17,668**	21,423
Cost of sales		**(7,776)**	(10,807)
Gross profit	2	**9,892**	10,616
Administrative costs		**(12,618)**	(11,160)
Operating loss	3	**(2,726)**	(544)
Finance expense	5	**(75)**	(241)
Finance income	5	**3**	10
Loss before taxation		**(2,798)**	(775)
Taxation	6	**233**	281
Loss for the financial year		**(2,565)**	(494)
Loss per share			
Basic and diluted	7	**(7.69)p**	(1.55)p

All activities relate to continuing operations.

Consolidated statement of comprehensive income

for the year ended 31 August 2011

	2011 £000	2010 £000
Loss for the financial year	**(2,565)**	(494)
Other comprehensive income		
Differences on translation of foreign operations	**106**	(51)
Other comprehensive income/(loss) for the financial year, net of tax	**106**	(51)
Total comprehensive loss for the financial year	**(2,459)**	(545)

Consolidated statement of financial position

as at 31 August 2011

	Note	2011 £000	2010 £000
Non-current assets			
Intangible assets	8	**23,473**	22,934
Property, plant and equipment	9	**956**	1,183
		24,429	24,117
Current assets			
Trade and other receivables	10	**3,770**	6,550
Current income tax receivable		**–**	472
Cash and cash equivalents	13	**2,228**	1,486
		5,998	8,508
Total assets		**30,427**	32,625
Current liabilities			
Trade and other payables	11	**(2,630)**	(3,577)
Non-current liabilities			
Other payables	11	**(3,175)**	(4,929)
Deferred income tax liability	12	**(931)**	(1,164)
		(4,106)	(6,093)
Total liabilities		**(6,736)**	(9,670)
Net assets		**23,691**	22,955
Capital and reserves attributable to equity holders of the parent			
Share capital	14	**362**	336
Share premium	14	**10,874**	7,863
Investment in own shares	14	**(1,225)**	(1,225)
Merger relief reserve	14	**3,375**	3,375
Merger reserve		**1,512**	1,512
Other reserves	15	**(198)**	(306)
Share option reserve		**839**	796
Retained earnings		**8,152**	10,604
Total equity		**23,691**	22,955

These financial statements were approved by the Board on 30 November 2011 and signed on its behalf by

J Collighan
Director

NS Graham
Director

Consolidated statement of changes in equity

for the year ended 31 August 2011

	Share capital £000	Share premium £000	Investment in own shares £000	Merger relief reserve £000	Merger reserve £000	Other reserves £000	Share option reserve £000	Retained earnings £000	Total £000
Balance at 31 August 2009	**335**	**7,724**	**(1,373)**	**3,375**	**1,512**	**(338)**	**914**	**11,343**	**23,492**
Loss for the financial year	–	–	–	–	–	–	–	(494)	(494)
Other comprehensive income									
Differences on translation of foreign operations	–	–	–	–	–	–	–	(51)	(51)
Total comprehensive loss for the financial year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(545)**	**(545)**
Transactions with owners									
Issue of share capital	1	139	–	–	–	–	–	–	140
Purchase of shares into treasury	–	–	(140)	–	–	–	–	–	(140)
Sale of shares from treasury	–	–	46	–	–	–	–	–	46
Reserves transfer	–	–	242	–	–	–	–	(242)	–
IFRS 2 share based payment credit	–	–	–	–	–	–	(1)	–	(1)
Tax related to share based payments	–	–	–	–	–	–	–	(69)	(69)
Fair value of vested options exercised in the year	–	–	–	–	–	–	(39)	39	–
Fair value of vested options lapsed in the year	–	–	–	–	–	–	(78)	78	–
Exercise of options over shares in EBT	–	–	–	–	–	32	–	–	32
	1	**139**	**148**	**–**	**–**	**32**	**(118)**	**(194)**	**8**
Balance at 31 August 2010	**336**	**7,863**	**(1,225)**	**3,375**	**1,512**	**(306)**	**796**	**10,604**	**22,955**
Loss for the financial year	–	–	–	–	–	–	–	(2,565)	(2,565)
Other comprehensive income									
Differences on translation of foreign operations	–	–	–	–	–	106	–	–	106
Total comprehensive loss for the financial year	**–**	**–**	**–**	**–**	**–**	**106**	**–**	**(2,565)**	**(2,459)**
Transactions with owners									
Issue of share capital	26	3,011	–	–	–	–	–	–	3,037
IFRS 2 share based payment charge	–	–	–	–	–	–	156	–	156
Fair value of vested options exercised in the year	–	–	–	–	–	–	(1)	1	–
Fair value of vested options lapsed in the year	–	–	–	–	–	–	(112)	112	–
Exercise of options over shares in EBT	–	–	–	–	–	2	–	–	2
	26	**3,011**	**–**	**–**	**–**	**2**	**43**	**113**	**3,195**
Balance at 31 August 2011	**362**	**10,874**	**(1,225)**	**3,375**	**1,512**	**(198)**	**839**	**8,152**	**23,691**

Consolidated statement of cash flows

for the year ended 31 August 2011

	2011 £000	2010 £000
Cash flows from operating activities		
Loss before taxation	**(2,798)**	(775)
Adjustments for:		
Depreciation	**481**	432
Amortisation	**2,099**	1,478
Share based payment expense/(credit)	**156**	(1)
Net finance cost	**72**	231
Decrease in trade and other receivables	**2,780**	81
Decrease in trade and other payables	**(947)**	(685)
Net income tax received/(paid)	**472**	(205)
Net cash flows from operating activities	**2,315**	556
Cash flows from investing activities		
Payments to acquire property, plant and equipment	**(253)**	(746)
Payments to acquire intangible assets	**(4,384)**	(4,394)
Purchase of subsidiary undertakings	**–**	(236)
Interest received	**3**	10
Net cash flows from investing activities	**(4,634)**	(5,366)
Cash flows from financing activities		
Net proceeds from issue of equity	**2,897**	–
Net proceeds from sale of shares from treasury	**–**	46
Purchase of shares into treasury	**–**	(140)
Proceeds from exercise of options over shares held in EBT	**2**	32
Net cash flows from financing activities	**2,899**	(62)
Net increase/(decrease) in cash and cash equivalents in the year	**580**	(4,872)
Effect of currency translation changes	**162**	(76)
Cash and cash equivalents at beginning of year	**1,486**	6,434
Cash and cash equivalents at end of year	**2,228**	1,486

Notes to the consolidated financial statements

1 Accounting policies

Basis of preparation

The consolidated financial statements have been prepared in accordance with applicable International Financial Reporting Standards as issued by the International Accounting Standards Board and adopted by the EU (IFRS).

These financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability or expense. The detailed measurement bases and principal accounting policies of the Group are set out below. The accounting policies have been applied consistently throughout the Group for the purposes of the preparation of these consolidated financial statements. The presentational currency of the Group and functional currency of the Company is Sterling.

Going concern

These financial statements have been prepared on a going concern basis under the historical cost convention. The Group meets its day-to-day working capital requirements through its existing cash reserves. In addition, the Group's overdraft facility, secured on the assets of subsidiary undertaking 2ergo Limited, remains unutilised. The directors have prepared a forecast which, taking account of reasonably possible changes in trading performance, identifies that the Group continues to have sufficient working capital to continue trading for the foreseeable future and therefore the directors feel it is appropriate to continue to prepare the financial statements on a going concern basis. The directors will continue to monitor cash flow forecasts and, if relevant, will discuss any need for further loan or overdraft facilities or further equity investment in good time. An overview of the Group's financial risk management policies and exposures is provided in note 13.

Adoption of new accounting standards

The Group has not adopted any new interpretations, revisions or amendments to IFRS issued by the International Accounting Standards Board during the year which have a significant effect on current, prior or future periods in respect of presentation, recognition or measurement. An overview of standards, amendments and interpretations to IFRSs issued but not yet effective is provided on page 27.

Basis of consolidation

The consolidated financial statements consolidate those of the Company and its subsidiary undertakings drawn up to 31 August each year. Subsidiaries are entities over which the Company has the power to control the financial and operating policies so as to obtain benefits from their activities. The Group generally obtains and exercises control through voting rights.

The results of subsidiaries acquired are consolidated from the date on which control passed. Acquisitions of subsidiaries are accounted for under the purchase method, other than for the original acquisition of 2ergo Limited by 2ergo Group plc which has been accounted for using the principles of merger accounting as permitted by IFRS 1.

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

Business combinations

Under the provisions of IFRS 1, the Group has elected not to apply IFRS 3 Business combinations retrospectively to business combinations prior to the date of transition to IFRS.

Accordingly, the classification of acquisitions prior to the date of transition remain unchanged from those used under UK GAAP. Assets and liabilities are recognised at the date of transition (if they would be recognised under IFRS), and are recognised at net book value.

Subsequent to the date of transition, the purchase method is used for the acquisition of subsidiaries. This involves the recognition at fair value of the assets, liabilities and contingent liabilities of the subsidiary at the acquisition date. These fair values are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

In accordance with IFRS 3, the fair value of assets or liabilities acquired, where cash flows arise in future periods, is obtained by discounting to present value the amounts expected to be receivable or payable in the future using a weighted average cost of capital.

Segmental reporting

Operating segments are identified based on internal management reporting information that is regularly reviewed by the chief operating decision maker (CODM) and is used to make strategic decisions. Any transactions between operating segments are carried out at arm's length prices.

Segmental assets are not disclosed in accordance with IFRS 8 as they are not regularly reviewed by the CODM.

1 Accounting policies continued

Revenue

The Group derives its revenues from contracts which include individual or varying combinations of the Group's managed services and products. The timing of revenue recognition in each case depends upon a variety of factors, including the specific terms of each contract and the nature of the Group's deliverables and obligations.

Revenue represents the fair value of consideration receivable by the Group for services provided, net of value added tax. The Group's revenue streams include monthly service fees, application development fees, licence fees and transaction fees depending on the type and delivery of service.

Revenue for transaction fees is recognised at the point of service delivery and when collection of the resulting receivable is reasonably assured. Monthly service and licence fees are recognised over the period of the agreement. Development fees are recognised in line with percentage completion of work performed towards contractual milestones. Percentage completion is determined through agreed correspondence with the Group's client or if none is available, based on directors' estimates. When components of a single invoice are separately identifiable, such as development and monthly service fees, revenue is measured separately for each component in accordance with the recognition policies above.

Intangible assets

Purchased intellectual property

Purchased intellectual property is capitalised at cost and amortised on a straight line basis based upon the directors' estimate of useful economic lives (3 to 10 years).

Research and development

Expenditure on research is written off in the period in which it is incurred, except where such expenditure is recoverable from third parties. Development costs incurred are capitalised when all the following conditions are satisfied:

- completion of the product is technically feasible so that it will be available for use or sale;
- the Group intends to complete the product and use or sell it;
- the Group has the ability to use or sell the product;
- the product is commercially viable and will generate probable future economic benefits;
- there are adequate technical, financial and other resources to complete development of the product; and
- the expenditure attributable to the product during its development can be measured reliably.

Development costs comprise all directly attributable costs, including employee costs incurred on software development along with an appropriate portion of relevant overheads. Development costs not meeting the criteria for capitalisation are written off as incurred. Development costs are capitalised at cost and amortised from completion and commercial sale of the product on a straight line basis based upon the directors' estimate of their useful economic lives (3 to 10 years).

Assets acquired as part of a business combination

In accordance with IFRS 3 Business combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. IFRS 3 allows for adjustments in the fair value of acquired assets for a period of up to 12 months from acquisition. The fair value of the intangible asset reflects expectations about the probability that future economic benefits from the asset will flow to the Group. These costs are amortised on a straight line basis based upon the directors' estimate of their useful economic lives as above.

Goodwill

Goodwill arising on business combinations prior to the adoption of IFRS 3 (revised 2008) represents the difference between the cost of a business acquisition and the fair value of the net identifiable assets acquired, less any accumulated impairment losses. The cost of acquisition represents the fair value of assets given and equity instruments issued in return for the assets acquired, plus directly attributable costs. There have been no business combinations since the adoption of IFRS 3 (revised 2008).

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and any provision for impairment. Depreciation is provided to write down the cost to the residual value over the assets' estimated useful economic lives as follows:

Computer equipment	25% or 33.3% straight line
Office furniture and fittings	25% or 33.3% straight line

The residual values and economic lives of assets are reviewed by the directors on at least an annual basis and are amended as appropriate.

1 **Accounting policies** continued

Impairment testing of intangible assets and property, plant and equipment

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Those intangible assets not yet available for use and goodwill are tested for impairment at least annually by reviewing management approved forecasts for those cash generating units. All other individual assets or cash generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset or cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs to sell, and value in use based on an internal discounted cash flow valuation. Any impairment loss is charged pro rata to the assets in the cash generating unit.

Leases

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases. Rentals paid under operating leases are charged to the income statement on a straight line basis over the period of the lease.

Taxation

Current tax is the tax currently payable based upon the taxable loss for the period.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill or of any other asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Tax losses which are available to be carried forward and other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying temporary differences will be able to be offset against future taxable income.

Current and deferred tax assets and liabilities are measured at tax rates that are expected to apply in the period of realisation based on tax rates and laws that have been enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

Financial assets

Financial assets are recognised when the Group becomes a party to the contractual provisions of the contract. They are assigned to the categories described below by management on initial recognition, depending on the purpose for which they were acquired. The designations of financial assets are re-evaluated at every reporting date at which a choice of classification or accounting treatment is available, and are as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. These are initially recognised at fair value and subsequently are measured at amortised cost using the effective interest rate method, less provision for estimated irrecoverable amounts. Any change in their value through impairment or reversal of impairment is recognised in the income statement. The carrying value less impairment provision of loans and receivables is assumed to approximate to their fair value. The Group's trade receivables and cash and cash equivalents fall into this category.

Cash and cash equivalents

Cash and cash equivalents comprise cash in hand and demand deposits, together with other short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

1 Accounting policies continued

Financial liabilities

Financial liabilities are obligations to pay cash or other financial assets and are recognised when the Group becomes a party to the contractual provisions of the contract. The Group's financial liabilities include trade payables and contingent consideration on acquisitions which are measured initially at fair value and subsequently at amortised cost using the effective interest rate method, based on management's expectations of performance. Changes to the value of contingent consideration result in a revision to the value of goodwill recognised on the associated acquisition.

Derecognition of financial assets and liabilities

A financial asset or liability is generally derecognised only when the contract that gives rise to it is settled, sold, cancelled or expires.

Foreign currencies

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are reported at the rates of exchange prevailing at that date. Exchange differences arising on the settlement and retranslation of monetary items are included in the operating result for the year.

The results of overseas operations are translated at the monthly average rates of exchange during the period (in place of prevailing rates at the date of each transaction as there are no significant fluctuations in rates of exchange) and their assets and liabilities at the rates of exchange ruling at the reporting date. Exchange differences arising on translation of the opening net assets and results of overseas operations are recognised in other comprehensive income.

Employee benefits

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension costs charged in the income statement are the contributions payable to the scheme in respect of the accounting period.

Share based payments

The Group issues equity-settled share based payments to certain employees. The fair value of these payments is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the Group's estimate of shares or options that will eventually vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

In the case of options granted, fair value is measured by the Black–Scholes pricing method. All equity-settled share based payments are ultimately recognised as an expense in the income statement with a corresponding credit to the share option reserve.

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

Employee benefit trust

The assets and liabilities of the Employee Benefit Trust (EBT) have been included in the consolidated financial statements. Any assets held by the EBT cease to be recognised on the Consolidated statement of financial position when the assets vest unconditionally in identified beneficiaries. The costs of purchasing own shares held by the EBT are shown as a deduction against equity. The proceeds from the sale of own shares increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the Consolidated income statement.

1 **Accounting policies** continued

Equity

Equity comprises the following:

- Share capital, representing the nominal value of shares of the Company;
- Share premium, representing the excess over the nominal value of the fair value of consideration received for shares, net of expenses of the share issue;
- Investment in own shares, representing the cost of purchasing issued shares in the Company into treasury;
- Merger relief reserve, representing the excess of the fair value of net assets acquired and goodwill arising on acquisition over the nominal value of shares issued;
- Merger reserve, representing the excess of the Company's cost of investment over the nominal value of 2ergo Limited's shares acquired using the principles of merger accounting;
- Other reserve, representing the cost of the Company's shares held by the EBT that are shown as a deduction against equity;
- Translation reserve, representing translation differences on foreign operations; and
- Share option reserve, representing the cost of equity-settled share based payments until such share options are exercised or lapse.

Recently issued accounting pronouncements

At the date of issue of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective. The directors anticipate that the adoption of these Standards and Interpretations, which is expected to occur on their effective dates, will not have a material impact on the Group's financial statements.

- IAS 24 (revised) Related party disclosures
- IFRIC 20 Stripping costs in production phase of a surface mine
- Amendment to IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction – prepayments of a minimum funding requirement

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenue and expenses during the periods presented. Actual results may differ significantly from the estimates, the effect of which is recognised in the period in which the facts that give rise to the revision become known. The following paragraphs detail the policies the Group believes to have the most significant impact on the annual results under IFRS.

Intangible assets

Intangible assets are capitalised at cost and amortised on a straight line basis based upon the directors' estimate of their useful economic lives. In addition, the carrying value of intangible assets is assessed when indications of impairment exist. The level of success of propositions, products and applications (such as Secure Connect) based on these intangible assets may be different from the directors' estimates, which could impact the useful economic lives of the intangible assets and operating results positively or negatively. The Group holds intangible assets with a net book value of £12,356,000 (2010: £10,128,000).

Impairment of goodwill

The Group determines whether goodwill arising on acquisitions is impaired on at least an annual basis. This requires an estimation of the 'value in use' of the cash generating units to which the goodwill is allocated. Estimating a value in use amount requires the directors to make an estimate of the expected future cash flows from the cash generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows (see note 8). The actual cash flows may be different from the directors' estimates, which could impact the carrying value of the goodwill and therefore operating results negatively. The value of goodwill at 31 August 2011 is £11,117,000 (2010: £12,806,000).

Provision for doubtful trade receivables

The Group evaluates the collectability of trade receivables and records provisions based on experience. These provisions are based on, amongst other things, comparison of the relative age of accounts and consideration of actual write-off history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. The value of the provision for doubtful receivables at 31 August 2011 is £236,000 (2010: £151,000).

Notes to the consolidated financial statements (continued)

1 Accounting policies continued

Deferred tax asset

The recognition of deferred tax assets is based upon whether it is more likely than not that sufficient and suitable taxable profits will be available in the future against which the reversal of temporary differences can be deducted. Where the temporary differences relate to tax losses carried forward, the directors must assess the expectations of profits in the future. The actual performance may be different from the directors' estimates which could impact the recoverability of the deferred tax asset. The value of the deferred tax assets at 31 August 2011 is £457,000 (2010: £6,000).

Contingent consideration

The consideration payable for the acquisition of certain subsidiaries includes a deferred element which is contingent on the future performance of the acquired business (see note 18). The value of contingent consideration recognised is based on the directors' estimates of that future performance and has been discounted. The actual performance may be different from the directors' estimates, which could impact the value of contingent consideration recognised and the interest charge relating to the unwinding of the discount. The value of contingent consideration at 31 August 2011 is £3,315,000 (2010: £5,069,000), the movement reflecting changes in the directors' estimates of future performance based on current and expected trading.

Revenue recognition

Where the Group is providing material development services, development fees are recognised in line with percentage completion of work performed towards contractual milestones. Payment milestones and the directors' estimate of percentage completion may differ. The actual timing of receivables collected and profit recognised therefore may differ from that estimated, which could impact operating results positively or negatively. At 31 August 2011, unbilled but contracted revenue of £nil (2010: £274,000) had been recognised for development fees.

2 Segmental analysis

The Group is organised into four principal operating divisions for management purposes representing the geographies which the Group operates in. Each key territory has one manager responsible for reporting of results for that territory to the chief operating decision maker (CODM). Each territory segment can access all of the Group's products, with clients benefiting from the opportunities created by combining the Group's products in 2ergo's sector and client specific propositions. The EMEA segment includes the Group's performance in Europe, the Middle East and Africa. The Americas segment includes the Group's performance in the US, Central and Southern America. Other segments reported are for performance in India and Australia. The Other segment includes non-allocated income and expenditure from the Group's central services.

The CODM assesses the performance of each operating segment based on revenue, gross profit and earnings before interest, tax, depreciation and amortisation (EBITDA) measures. The Group's revenues and gross profits may be further analysed between Direct and Wholesale services. The Group's Direct services have a higher margin than the high volume wholesaler introduced business. Operating costs are not analysed between Direct and Wholesale services and accordingly neither is the EBITDA measure. Revenue is not analysed by product or service.

The Group has one customer, revenues with whom represent more than 10% of the Group's revenue. Revenues related to that Wholesale customer in the EMEA region in the year to 31 August 2011 were £2.8 million (2010: £4.0 million) and gross profit recognised was £0.1 million (2010: £0.1 million).

	EMEA 2011 £000	Americas 2011 £000	Australia 2011 £000	India 2011 £000	Other 2011 £000	Total 2011 £000
Revenue						
Direct	9,569	1,906	513	433	–	**12,421**
Wholesale	5,247	–	–	–	–	**5,247**
	14,816	**1,906**	**513**	**433**	**–**	**17,668**
Gross profit						
Direct	7,217	1,534	497	393	–	**9,641**
Wholesale	251	–	–	–	–	**251**
	7,468	**1,534**	**497**	**393**	**–**	**9,892**
EBITDA[1]	**1,373**	**(246)**	**(388)**	**(480)**	**(405)**	**(146)**
Depreciation						(481)
Amortisation						(2,099)
Operating loss						**(2,726)**
Finance expense						(75)
Finance income						3
Loss before tax						**(2,798)**

2 Segmental analysis continued

	EMEA 2010 £000	Americas 2010 £000	Australia 2010 £000	India 2010 £000	Other 2010 £000	Total 2010 £000
Revenue						
Direct	9,491	2,082	267	617	–	**12,457**
Wholesale	8,966	–	–	–	–	**8,966**
	18,457	**2,082**	**267**	**617**	**–**	**21,423**
Gross profit						
Direct	7,540	1,845	262	514	–	**10,161**
Wholesale	455	–	–	–	–	**455**
	7,995	**1,845**	**262**	**514**	**–**	**10,616**
EBITDA[1]	**2,331**	**(455)**	**(320)**	**(17)**	**(173)**	**1,366**
Depreciation						(432)
Amortisation						(1,478)
Operating loss						**(544)**
Finance expense						(241)
Finance income						10
Loss before tax						**(775)**

[1] Earnings before interest, tax, depreciation and amortisation.

All revenues are from external customers. Revenues can be attributed to the following countries, based on the customers' location, as follows:

	2011 £000	2010 £000
United Kingdom	**14,814**	18,195
United States	**1,519**	1,978
India	**433**	617
Australia	**513**	267
Rest of world	**389**	366
	17,668	21,423

3 Operating loss

Operating loss is stated after charging to administrative costs:

	2011 £000	2010 £000
Depreciation of owned tangible assets	**481**	432
Amortisation of intangible assets	**2,099**	1,478
Operating lease rentals	**576**	559
Exchange differences	**164**	16
Auditor's remuneration		
Audit of parent Company and consolidated accounts	**12**	12
Audit of the Company's subsidiaries	**20**	19
Other non-audit services	**18**	39
Research and development	**287**	168

Other non-audit services includes tax services of £11,000 (2010: £36,000).

4 Particulars of staff

The average number of persons employed by the Group, including executive directors, during the year was:

	2011 No.	2010 No.
Technical	**74**	68
Sales and administration	**92**	109
	166	177

The aggregate payroll costs of these persons was:

	2011 £000	2010 £000
Wages and salaries	**7,205**	6,766
Share scheme costs	**156**	(1)
Social security costs	**599**	509
Pension costs – defined contribution plan	**222**	182
Less: amounts capitalised	**(2,041)**	(1,702)
	6,141	5,754

Key management remuneration

During the year the roles which are included as comprising the key management team were re-assessed. Remuneration of the key management team of 8 (2010: 17), including executive directors, during the year was as follows:

	2011 £000	2010 £000
Aggregate emoluments including short-term employee benefits	**780**	1,505
Termination benefits	**–**	30
Share scheme costs	**66**	4
Pension costs – defined contribution plan	**50**	66
	896	1,605

Directors' remuneration

Remuneration of directors during the year was as follows:

	2011 £000	2010 £000
Aggregate emoluments including short-term employee benefits	**386**	354
Pension costs – defined contribution plan	**46**	45
Fees	**–**	26
	432	425

The remuneration of the highest paid director during the year was:

	2011 £000	2010 £000
Aggregate emoluments including short-term employee benefits	**112**	110
Pension costs – defined contribution plan	**21**	21
	133	131

The remuneration of individual directors is disclosed in the Directors' report on page 12. Retirement benefits are accruing to 3 (2010: 3) directors in respect of defined contribution schemes.

5 Finance expense and finance income

	2011 £000	2010 £000
Notional interest due on contingent consideration	**75**	241

	2011 £000	2010 £000
Interest income on short-term bank deposits	**3**	10

6 Taxation

	2011 £000	2010 £000
Current tax		
UK Corporation tax at 27.17% (2010: 28.00%)	**–**	–
Adjustments in respect of prior years	**–**	(534)
	–	(534)
Deferred tax		
In respect of current year	**(250)**	290
In respect of prior years	**17**	(37)
	(233)	253
Tax on loss on ordinary activities	**(233)**	(281)
Tax reconciliation		
Loss before tax	**(2,798)**	(775)
Tax using the UK corporation tax rate of 27.17% (2010: 28.00%)	**(760)**	(217)
Non-deductible expenses	**152**	134
Losses carried back	**–**	347
Research and development tax credits	**(373)**	(230)
Exercise of options and employee share acquisition relief	**41**	(77)
Share based payment temporary differences	**(31)**	28
Adjustment to current tax in respect of prior years	**–**	(534)
Adjustment to deferred tax in respect of prior years	**17**	(37)
Effect of change in tax rates	**–**	(34)
Utilisation of research and development tax credits	**375**	–
Movement in deferred tax not provided	**348**	336
Other	**(2)**	3
Tax on loss on ordinary activities	**(233)**	(281)

In the year ended 31 August 2010, the adjustment to current tax in respect of prior years primarily relates to the carry back of losses.

7 Loss per share

The calculation of basic and diluted loss per share is based on the result attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year. The weighted average number of shares for the purpose of calculating the basic and diluted measures is the same. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive.

	Loss per share pence	**Loss £000**	**2011 Weighted average number of ordinary shares**	Loss per share pence	Loss £000	2010 Weighted average number of ordinary shares
Basic and diluted	**(7.69)**	**(2,565)**	**33,369,925**	(1.55)	(494)	31,856,117

8 Intangible assets

	Goodwill £000	Intellectual property for mobile/ internet applications £000	Total £000
Cost			
At 1 September 2009	14,685	10,940	25,625
Additions – internally developed	–	1,846	1,846
Additions – purchased	–	2,548	2,548
Adjustment to contingent consideration	(1,879)	–	(1,879)
Effect of currency translation rate changes	–	17	17
At 31 August 2010	**12,806**	**15,351**	**28,157**
Additions – internally developed	–	2,041	2,041
Additions – purchased	–	2,343	2,343
Adjustment to contingent consideration	(1,689)	–	(1,689)
Effect of currency translation rate changes	–	(57)	(57)
At 31 August 2011	**11,117**	**19,678**	**30,795**
Amortisation			
At 1 September 2009	–	3,745	3,745
Charge for the year	–	1,478	1,478
At 31 August 2010	**–**	**5,223**	**5,223**
Charge for the year	–	2,099	2,099
At 31 August 2011	**–**	**7,322**	**7,322**
Net book value			
At 31 August 2011	**11,117**	**12,356**	**23,473**
At 31 August 2010	12,806	10,128	22,934
At 1 September 2009	14,685	7,195	21,880

Included within intellectual property for mobile/internet applications is intellectual property for the Group's Secure Connect technology of £3,183,000 (2010: £2,799,000), which due to its pre-revenue nature is not currently being amortised.

Annual impairment reviews of goodwill arising on acquisitions have been performed for the Secure Connect (formerly Broca), Ticketing & Couponing, Australia and India cash generating units. The recoverable value of each unit has been based on its value in use. The cash flow projections, which were based on 3 year forecasts approved by the directors and then extended to cover a 5–10 year period as appropriate for the unit, supported the carrying value of goodwill with no impairment required. The Group has no intangible assets with indefinite useful lives other than goodwill.

8 Intangible assets continued

Cash generating unit	Carrying value of goodwill £000	Period over which cash flows have been projected	Growth rate beyond management approved forecasts	Discount rate for cash flow projections
Secure Connect	7,403	10 years	0–2.25%	12%
Australia	205	5 years	2.25%	12%
Ticketing & Couponing	3,295	10 years	0–2.25%	12%
India	214	10 years	0–2.25%	13%

The key assumptions underlying these forecasts are the growth rates for use of, and gross margins for, the relevant Group propositions within each cash generating unit and the growth rate of mobile technology generally in the relevant territories. These assumptions are based on management's experience and are in line with market expectations. Cash flows for the Secure Connect, Ticketing & Couponing and India cash generating units have been projected over more than 5 years due to the technology rich nature of the Group's propositions, which not only have demand in the Group's existing territories, but have particularly strong potential in emerging markets such as Asia, Africa and South America where cash flows will have a delayed profile compared to more mature markets, and due to the acquisitions being either pre-revenue or in the early stages of revenue generation meaning that forecast revenues benefit for the entire product life cycle. The technology for Secure Connect will be available in all regions and the technology for Ticketing & Couponing is already available in those regions, but for the purposes of the cash flow projections for the annual impairment reviews only the forecast cash flows from the EMEA and Americas regions have been included as this is where initial demand is expected to be greatest. Discount rates are determined by reference to relevant comparator companies.

Due to Secure Connect's innovative technology and current pre-revenue status, the timing and rate of growth for revenues from this cash generating unit is uncertain. However, the directors anticipate significant growth in revenue as the growth in mobile payments and security, predicted in numerous analyst reports, takes hold. The forecasts for Secure Connect provide headroom in excess of £1.7 million over the value of goodwill and intangible assets attributed to the cash generating unit. Other than the timing and rate of growth for revenues for Secure Connect, the directors do not believe there is any reasonably possible change to any key assumption used in determining the recoverable amount which would cause any of the cash generating units' carrying amounts to exceed their respective recoverable amounts.

9 Property, plant and equipment

	Computer equipment £000	Office furniture and fittings £000	Total £000
Cost			
At 1 September 2009	934	750	1,684
Additions	721	25	746
Effect of currency translation rate changes	7	1	8
At 31 August 2010	**1,662**	**776**	**2,438**
Additions	241	12	253
Effect of currency translation rate changes	1	–	1
At 31 August 2011	**1,904**	**788**	**2,692**
Depreciation			
At 1 September 2009	648	175	823
Charge for the year	259	173	432
At 31 August 2009	**907**	**348**	**1,255**
Charge for the year	339	142	481
At 31 August 2010	**1,246**	**490**	**1,736**
Net book value			
At 31 August 2011	**658**	**298**	**956**
At 31 August 2010	755	428	1,183
At 1 September 2009	286	575	861

Notes to the consolidated financial statements (continued)

10 Trade and other receivables

	2011 £000	2010 £000
Trade receivables	**2,912**	3,438
Less: Provision for impairment of trade receivables	**(236)**	(151)
	2,676	3,287
Prepayments and accrued income	**884**	3,084
Other receivables	**210**	179
	3,770	6,550

The ageing of trade receivables that were not impaired at the balance sheet date was:

	2011 £000	2010 £000
Not past due	**1,578**	2,469
Up to 3 months past due	**882**	371
More than 3 months past due	**194**	447
	2,654	3,287

Accrued income and other receivables are not past due (2010: not past due).

The Group trades only with recognised, credit-worthy third parties. Receivable balances are monitored on an ongoing basis with the aim of minimising the Group's exposure to bad debts and in some cases the Group holds cash as security for some customers' debts. The Group has reviewed in detail all items comprising the above overdue but not impaired trade receivables to ensure that no impairment exists. As at 31 August 2011, trade receivables of £258,000 (2010: £151,000) were impaired and provided for, all of which were more than 3 months old (2010: more than 3 months old). The amount of the provision was £236,000 as at 31 August 2011 (2010: £151,000). Movements on the provision for impairment of trade receivables are as follows:

	2011 £000	2010 £000
At 1 September	**151**	115
Provision for receivables impairment	**473**	350
Receivables written off during the year	**(388)**	(314)
At 31 August	**236**	151

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable disclosed above.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2011 £000	2010 £000
Sterling	**2,561**	5,122
US Dollars	**668**	697
Indian Rupees	**260**	483
Australian Dollars	**281**	248
	3,770	6,550

11 Trade and other payables

	2011 £000	2010 £000
Current		
Trade payables	**1,325**	1,566
Other payables	**338**	349
Deferred contingent consideration	**140**	140
Accruals and deferred income	**827**	1,522
	2,630	3,577
Non-current		
Deferred contingent consideration	**3,175**	4,929
	5,805	8,506

Deferred contingent consideration is based on the directors' current estimate of consideration payable in relation to the acquisition of Activemedia Technologies Limited, which can be settled in either shares or loan notes, to be determined at the Group's discretion (see note 18).

12 Deferred income tax liability

The elements of deferred taxation are as follows:

	2011 £000	2010 £000
Accelerated capital allowances and intellectual property	**1,388**	1,170
Trade losses	**(418)**	–
Share option charge	**(39)**	(6)
	931	1,164

Movement in deferred tax:

	Accelerated capital allowances and intellectual property £000	**Trade losses £000**	**Share option charge £000**	**Total £000**
At 1 September 2009	945	–	(103)	842
Charged to income statement	225	–	28	253
Charged to equity	–	–	69	69
At 31 August 2010	**1,170**	**–**	**(6)**	**1,164**
Charged/(credited) to income statement	218	(418)	(33)	(233)
At 31 August 2011	**1,388**	**(418)**	**(39)**	**931**

The deferred tax trade losses includes £398,000 relating to research and development tax credits. The deferred tax asset is recognised as it is expected to be utilised against profits in the year to 31 August 2012. No deferred tax asset is recognised for unused tax losses across the Group of £6.0 million (2010: £4.7 million).

Notes to the consolidated financial statements (continued)

13 Financial instruments and financial risk management

The Group's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk, liquidity risk and capital risk. The Group uses financial instruments, comprising cash, trade receivables and trade payables, to manage financial and commercial risk wherever it is appropriate to do so. Risk management is overseen by the directors, who do not consider there to be any significant risks arising from the Group's risk management policies.

Market risk

Foreign exchange risk

The vast majority of the Group's revenues and costs are in Sterling (the parent Company's functional currency) and involve no currency risk. Activities in currencies other than Sterling are funded as much as possible through operating cash flows, mitigating foreign exchange risk on these investments. The Group has the following cash and cash equivalent deposits:

	2011 £000	2010 £000
Cash		
Sterling	1,751	1,374
US Dollars	50	3
Argentine Pesos	17	37
Indian Rupees	89	49
Australian Dollars	71	23
	1,978	1,486
Cash equivalent		
Sterling	250	–
	2,228	1,486

The Group has the following net trade receivables/payables:

	2011 £000	2010 £000
Sterling	675	979
US Dollars	416	531
Argentine Pesos	5	14
Indian Rupees	58	68
Australian Dollars	197	129
	1,351	1,721

A 5% change in the currency translation rate between Sterling and each currency would have the following effect on the Group's net assets and loss before tax:

	+5% 2011 £000	–5% 2011 £000	+5% 2010 £000	–5% 2010 £000
Net assets				
US Dollars	69	(77)	54	(60)
Argentine Pesos	9	(10)	3	(3)
Indian Rupees	15	(16)	(7)	8
Australian Dollars	33	(36)	8	(9)

13 Financial instruments and financial risk management continued

	+5% 2011 £000	–5% 2011 £000	+5% 2010 £000	–5% 2010 £000
Loss before tax				
US Dollars	**21**	**(23)**	33	(36)
Argentine Pesos	**2**	**(2)**	(1)	1
Indian Rupees	**23**	**(25)**	2	(2)
Australian Dollars	**21**	**(23)**	16	(18)

Interest rate risk

Sterling cash deposits are placed on deposit at the most favourable floating bank deposit interest rates, taking into account the Group's short and medium term cash flow expectations. The Group's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

The Group has no significant concentrations of credit risk. The Group's standard policies require appropriate credit checks on potential customers before sales commence. Surplus funds held in the Group are invested, in line with Board-approved policy, in high quality, short-term liquid investments, usually money market funds or bank deposits.

Credit risk is managed by placing cash deposits with banks which carry a minimum credit rating of BBB, after also considering asset funding, capital and leverage ratios of the banks. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position.

The IFRS 7 analysis of financial assets included in the statement of financial position is as follows:

	2011 Loans and receivables £000	2010 Loans and receivables £000
Trade receivables	**2,676**	3,287
Accrued income	**380**	1,668
Other receivables	**210**	179
Cash and cash equivalents	**2,228**	1,486
	5,494	6,620

The carrying amounts for loans and receivables above reflect the Group's maximum exposure to credit risk.

Liquidity risk

Prudent liquidity risk management requires the Group to maintain sufficient cash, short-term liquid investments and available facilities to be able to settle its short-term payables as they fall due. The Group monitors rolling forecasts of its cash and cash equivalent short-term investments on the basis of expected cash flow. During the year the Group arranged an overdraft facility, secured on the assets of 2ergo Limited. At the date of these financial statements, the facility had not been utilised.

	2011 Financial liabilities at amortised cost £000	2010 Financial liabilities at amortised cost £000
Trade payables	**1,325**	1,566
Other payables	**338**	349
Accruals	**825**	1,514
Deferred contingent consideration	**3,315**	5,069
Amortised cost	**5,803**	8,498

Notes to the consolidated financial statements (continued)

13 Financial instruments and financial risk management continued

The remaining contractual term for all of the liabilities above is less than 6 months other than deferred contingent consideration arising on the acquisition of Activemedia Technologies which is payable in tranches to November 2013 and can be settled at the discretion of the Group by the issue of new ordinary shares in the Company or loan notes. The directors' best estimate of the outstanding gross deferred contingent consideration is £3,555,000 (2010: £5,696,000), £140,000 (2010: £140,000) of which is payable within 6 months with the balance, if targets are achieved, being due between 12 and 28 months after the reporting date. For further details see note 18.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to minimise the Group's cost of capital. At 31 August 2011 the total equity of the Group was £23,691,000 (2010: £22,955,000) and the Group held cash and cash equivalents of £2,228,000 (2010: £1,486,000) with £nil debt (2010: £nil) and has an as yet unutilised overdraft facility in place. In order to maintain or adjust the capital structure in the future, the Group may make dividend payments to shareholders, return capital to shareholders, issue or buy back shares and raise and repay debt.

14 Share capital

The authorised share capital of the Company is 500,000,000 (2010: 500,000,000) ordinary shares of 1p each. The share capital allotted, called up and fully paid at 31 August 2011 was 36,201,800 (2010: 33,622,955) ordinary shares of 1p each, of which 899,726 (2010: 899,726) were held in treasury.

	Number of shares	Share capital £000	Share premium £000	Merger relief reserve £000
At 1 September 2009	33,506,694	335	7,724	3,375
Issue of share capital	116,261	1	139	–
At 31 August 2010	**33,622,955**	**336**	**7,863**	**3,375**
Issue of share capital (net of issue costs)	2,578,845	26	3,011	–
At 31 August 2011	**36,201,800**	**362**	**10,874**	**3,375**

2011 movement

On 5 January 2011, the Company issued 197,892 1p ordinary shares pursuant to a tranche of the contingent consideration due on the acquisition of the entire issued share capital of Activemedia Technologies Limited in 2009. On 24 February 2011, the Company issued 2,380,953 1p ordinary shares through a Placing with new and existing shareholders at a price of £1.26 per share. The purpose of the Placing was to raise additional working capital and funds to bring forward certain capital expenditure plans. Costs incurred in the Placing totalled £102,000.

2010 movement

On 3 August 2010, the Company issued 116,261 1p ordinary shares pursuant to a tranche of the contingent consideration due on the acquisition of the entire issued share capital of Activemedia Technologies Limited in 2009.

Investment in own shares

The Company has completed the following transactions involving shares held in treasury.

	Number	Total consideration £000
At 1 September 2009	1,000,000	1,373
Purchases		
24 November 2009	109,825	140
Issues pursuant to exercise of employee share options		
24 November 2009	(210,099)	(46)
Loss on issue		(242)
At 31 August 2010 and 2011	**899,726**	**1,225**

15 Other reserves

	Other reserve £000	Translation reserve £000	Total £000
At 1 September 2009	(338)	–	(338)
Exercise of options over shares in EBT	32	–	32
At 31 August 2010	**(306)**	**–**	**(306)**
Exercise of options over shares in EBT	2	–	2
Difference on translation of foreign operations	–	106	106
At 31 August 2011	**(304)**	**106**	**(198)**

16 Share option scheme

The Company has a share option scheme for certain employees of the Group. Options are generally exercisable at a price equal to the average quoted market price of the Company's shares on the date of grant. Options are forfeited if the employee leaves the Group before the options vest. The performance criteria relating to the options are the continuing employment of the holder and the achievement of certain earnings based performance criteria.

	Number of share options	**2011 Weighted average exercise price £**	Number of share options	2010 Weighted average exercise price £
Outstanding at the beginning of the year	**1,849,076**	**1.12**	2,675,395	1.14
Granted during the year	**1,560,000**	**0.19**	460,000	1.10
Exercised in the year	**(4,731)**	**0.48**	(277,144)	0.28
Forfeited in the year	**(103,371)**	**1.73**	(172,784)	2.01
Lapsed in the year	**(450,000)**	**0.97**	(836,391)	1.27
Outstanding at the end of the year	**2,850,974**	**0.61**	1,849,076	1.12
Exercisable at the end of the year	**1,350,974**	**1.08**	1,365,201	1.20

In the year ended 31 August 2011, options were granted on 20 December 2010 and 7 February 2011. The aggregate of the estimated fair values of the options granted on those dates was £1,398,768 and the weighted average share price on those dates was £1.02. In the year ended 31 August 2010, options were granted on 27 January 2010 and 15 March 2010. The aggregate of the estimated fair values of the options granted on those dates was £240,889 and the weighted average share price on those dates was £1.10.

Options outstanding under the Company's share option schemes at 31 August 2011 were as follows:

Name of scheme	**2011 No. of options**	**2010 No. of options**	**Calendar year of grant**	**Exercise period**	**Exercise price per share**
2003 Executive share option scheme	428,500	428,500	2003	2006–2013	£0.22
2004 EBT scheme	83,675	88,406	2004	2006–2014	£0.48
2004 Executive share option scheme	165,050	165,050	2004	2006–2014	£0.48
2005 Incentive share option scheme	371,486	395,158	2005	2007–2015	£1.72
2006 Incentive share option scheme	298,302	328,755	2006	2008–2016	£2.03
2007 Incentive share option scheme	3,961	18,643	2007	2008–2017	$3.93
2008 Incentive share option scheme	–	30,000	2008	2010–2018	£1.87
2009 Incentive share option schemes	–	84,033	2009	2010–2019	£1.19
	–	50,531	2009	2011–2019	£1.18
2010 Incentive share option schemes	–	20,000	2010	2011–2020	$1.56
	–	240,000	2010	2011–2020	£1.03
	400,000	–	2010	2013–2020	£0.70
2011 Management incentive schemes	1,100,000	–	2011	2014–2021	£0.01

The weighted average remaining contractual life of these options is 6.5 years (2010: 4.9 years).

Notes to the consolidated financial statements (continued)

16 Share option scheme continued

The fair value of the employees' services received in exchange for the grant of share options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted. Fair value is determined by reference to the Black–Scholes option pricing model.

The inputs into the Black–Scholes option pricing model are as follows:

	2011	2010
Weighted average exercise price	**£0.95**	£1.33
Expected volatility	**36.19%–43.77%**	36.19%–60.70%
Expected life	**2.5–6.5 years**	2.3–6.4 years
Risk free interest rate	**1.50%–4.94%**	1.27%–4.98%
Expected dividends	**Nil**	Nil

The volatility of the Company's share price on each date of grant was calculated as the average of volatilities of share prices of companies in the peer group on the corresponding dates. The volatility of share price of each company in the peer group was calculated as the average of annualised standard deviations of daily continuously compounded returns on the company's stock, calculated over 2, 3, 4, 5 and 6 years back from the date of grant, where applicable.

The Group recognised a charge of £156,000 (2010: credit of £1,000) related to equity-settled share based payment transactions in the year.

17 Operating lease commitments

At 31 August 2011, the Group had aggregate minimum lease payments under non-cancellable operating leases for office and server sites and server equipment as follows:

	2011 £000	2010 £000
Due within 1 year	**460**	344
Due from 1 to 5 years	**474**	430
	934	774

The majority of the Group's lease agreements are for initial terms of between 1 and 3 years, with the lease agreements then becoming cancellable with 1 to 2 months' notice period, other than for the Group's Head Office which can be cancelled after 5 years of the initial 10 year term.

18 Business combinations

On 24 July 2009, the Group acquired the entire issued share capital of Activemedia Technologies Limited and its Indian subsidiary undertaking Active Media Technologies Private Limited (now renamed Two Ergo India Private Limited) for initial cash consideration of £179,000 with further estimated discounted consideration payable of £6,890,000, subsequently revised to £3,278,000 in 2011. The deferred contingent consideration, which is payable in tranches, is discounted and calculated as the sum of 2.8 times forecast Ticketing & Couponing operating profit and 4 times Indian profit after tax for the year to 31 August 2012 based on management projections. It is dependent on the financial performance of the acquired business and is subject to an overall cap (covering both the Ticketing & Couponing and India cash generating units) related to Group performance. Consideration is payable between November 2009 and November 2013 and will be settled, at the discretion of the Group, by the issue of new ordinary shares in the Company or loan notes.

19 Related party transactions

During the year ended 31 August 2011, fees of £nil (2010: £17,500) were charged by another company for the services of K Seeley as non-executive director of the Company. At the year end, amounts owed in respect of these services were £nil (2010: £nil). During the year the Group purchased tax advisory services to the value of £nil (2010: £12,150) from Target Consulting Limited, a company in which K Seeley, a non-executive director of the Company, is a director. These transactions were at arm's length on normal commercial terms. At the year end the Group owed Target Consulting Limited £nil (2010: £nil) in respect of these services.

During the year the Group purchased legal advisory services to the value of £111,502 (2010: £76,262) from Pannone LLP, a firm in which MS Caller, a non-executive director of the Company, is a consultant. These transactions were at arm's length on normal commercial terms. At the year end the Group owed Pannone LLP £nil (2010: £9,325) in respect of these services.

None of the key management personnel of the Group owe any amounts to any company within the Group (2010: £nil), nor are any amounts due from any company in the Group to any of the key management personnel (2010: £nil).

Company balance sheet

as at 31 August 2011

	Note	2011 £000	2010 £000
Fixed assets			
Investments in subsidiaries	4	**13,554**	13,777
Current assets			
Debtors	5	**7,040**	4,408
Cash at bank and in hand		**253**	895
		7,293	5,303
Current liabilities			
Creditors: amounts falling due within one year	6	**(174)**	(162)
Net current assets		**7,119**	5,141
Total assets less current liabilities		**20,673**	18,918
Creditors: amounts falling due after more than one year	7	**(3,175)**	(4,929)
Net assets		**17,498**	13,989
Capital and reserves			
Share capital	8	**362**	336
Share premium	8	**10,874**	7,863
Investment in own shares	9	**(1,225)**	(1,225)
Merger relief reserve	9	**3,375**	3,375
Share option reserve	9	**839**	–
Profit and loss account	9	**3,273**	3,640
Shareholders' funds	9	**17,498**	13,989

These financial statements were approved by the Board on 30 November 2011 and signed on its behalf by

J Collighan
Director

NS Graham
Director

Notes to the Company financial statements

1 Accounting policies

Basis of preparation

The Company financial statements have been prepared in accordance with the Companies Act 2006 and applicable United Kingdom accounting standards (UK GAAP).

The financial statements have been prepared on a going concern basis under the historical cost convention. The measurement bases and principal accounting policies of the Company are set out below.

The accounting policies have been applied throughout all periods presented in these financial statements. These accounting policies comply with each UK GAAP accounting standard that is mandatory for accounting periods ending on 31 August 2011.

Taxation

Current tax is the tax currently payable based upon the taxable profit for the period. Current tax liabilities are measured at tax rates that are expected to apply in the period of realisation based on tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Investments

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

Deferred contingent consideration

Deferred contingent consideration on investments is measured initially at fair value and subsequently at amortised cost using the effective interest rate method, based on management's expectations of performance.

Share based payments

The Company issues equity-settled share based payments to certain employees of subsidiary undertakings of the Company. The fair value of these payments is determined at the date of grant and is recognised on a straight line basis over the vesting period based on the Company's estimate of shares or options that will eventually vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any amounts recognised in prior periods if share options ultimately exercised are different to that estimated on vesting.

In the case of options granted, fair value is measured by the Black–Scholes pricing method. All equity-settled share based payments are ultimately recognised as an investment in the subsidiary undertaking with a corresponding credit to the share option reserve.

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

2 Company result for the financial year

2ergo Group plc has not presented its own profit and loss account as permitted by section 408 (4) of the Companies Act 2006. The loss for the financial year dealt with in the accounts of the Company is £367,000 (2010: £377,000).

3 Particulars of staff

The Company had no staff during the year (2010: no staff). Details of directors' remuneration are contained in note 4 to the consolidated financial statements.

Notes to the Company financial statements (continued)

4 Investments

Investments in subsidiaries

	£000
Cost	
At 1 September 2010	13,777
Additional investment in Two Ergo India Private Limited	627
Share based payment charge	839
Revision to estimate of deferred contingent consideration	(1,689)
At 31 August 2011	**13,554**

Investment	Principal activity	Country of incorporation	Class and percentage of shares held and voting rights
2ergo Limited	Communications	England & Wales	Ordinary 100%
Marblesquare Limited	Communications	England & Wales	"A" and "B" Ordinary 100%
Activemedia Technologies Limited	Communications	England & Wales	Ordinary 100%
Broca Limited	Holding company	England & Wales	Ordinary 100%
Broca Communications Limited*	Dormant	England & Wales	Ordinary 100%
Sure on Sight Limited*	Dormant	England & Wales	Ordinary 100%
2ergo Americas Inc*	Communications	United States	Ordinary 100%
Georgia Holding Company Inc*	Dormant	United States	Ordinary 100%
M-Invent Inc*	Dormant	United States	Ordinary 100%
2ergo Inc*	Dormant	United States	Ordinary 100%
Telitas US Inc*	Dormant	United States	Ordinary 100%
Proteus Movil SA*	Communications	Argentina	Ordinary 100%
2ergo Australia Pty Limited*	Communications	Australia	Ordinary 100%
Two Ergo India Pvt Limited*	Communications	India	Ordinary 100%

* held indirectly

5 Debtors

	2011 £000	2010 £000
Amounts owed from group undertakings	**6,831**	4,172
Prepayments and accrued income	**105**	98
Corporation tax	**–**	35
Other debtors	**104**	103
	7,040	4,408

6 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	**17**	21
Deferred and contingent consideration	**140**	140
Accruals and deferred income	**17**	1
	174	162

7 Creditors: amounts falling due after more than one year

	2011 £000	2010 £000
Deferred contingent consideration	**3,175**	4,929

8 Share capital and premium

The authorised share capital of the Company is 500,000,000 (2010: 500,000,000) ordinary shares of 1p each. The share capital allotted, called up and fully paid at 31 August 2011 was 36,201,800 (2010: 33,622,955) ordinary shares of 1p each, of which 899,726 (2010: 899,726) were held in treasury.

	Number of shares	Share capital £000	Share premium £000	Total £000
At 1 September 2010	33,622,955	336	7,863	8,199
Issue of share capital (net of issue costs)	2,578,845	26	3,011	3,037
At 31 August 2011	**36,201,800**	**362**	**10,874**	**11,236**

On 5 January 2011, the Company issued 197,892 1p ordinary shares pursuant to a tranche of the contingent consideration due on the acquisition of the entire issued share capital of Activemedia Technologies Limited in 2009. On 24 February 2011, the Company issued 2,380,953 1p ordinary shares through a Placing with new and existing shareholders at a price of £1.26 per share. The purpose of the Placing was to raise additional working capital and funds to bring forward certain capital expenditure plans. Costs incurred in the Placing totalled £102,000.

There have been no transactions involving shares held in treasury during the year.

Notes to the Company financial statements (continued)

9 Movement in reserves and total shareholders' funds

	Share capital £000	Share premium £000	Investment in own shares £000	Merger relief reserve £000	Share option reserve £000	Profit and loss account £000	Total £000
Balance at 1 September 2010	336	7,863	(1,225)	3,375	–	3,640	13,989
Issue of share capital	26	3,011	–	–	–	–	3,037
Share based payment charge (see note 16 to the consolidated financial statements)	–	–	–	–	839	–	839
Loss for the financial year	–	–	–	–	–	(367)	(367)
Balance at 31 August 2011	**362**	**10,874**	**(1,225)**	**3,375**	**839**	**3,273**	**17,498**

10 Related party transactions

During the year ended 31 August 2011, fees of £nil (2010: £17,500) were charged by another company for the services of K Seeley as non-executive director of the Company. At the year end, amounts owed in respect of these services were £nil (2010: £nil). During the year the Company purchased tax advisory services to the value of £nil (2010: £12,150) from Target Consulting Limited, a company in which K Seeley, a non–executive director of the Company, is a director. These transactions were at arm's length on normal commercial terms. At the year end the Company owed Target Consulting Limited £nil (2010: £nil) in respect of these services.

The directors have taken advantage of the exemption in FRS 8 and have not disclosed transactions with other wholly owned group undertakings.

Company information

Directors	K Seeley (Non–Executive Chairman) NS Graham (Chief Executive Officer) J Collighan (Group Finance & Strategy Director) BA Sharples (Executive Director) MS Caller (Non–Executive Director)
Secretary	JG Esson
Company number	5010663
Registered office and business address	4th Floor, Digital World Centre 1 Lowry Plaza The Quays Salford Manchester M50 3UB
Bankers	NatWest Bank plc 6th Floor 1 Spinningfields Square Manchester M3 3AP
Solicitors	Addleshaw Goddard LLP 100 Barbirolli Square Manchester M2 3AB
Auditors	Grant Thornton UK LLP Registered Auditors Chartered Accountants 4 Hardman Square Spinningfields Manchester M3 3EB
Nominated Adviser	Numis Securities Limited 10 Paternoster Square London EC4M 7LT
Broker	Numis Securities Limited 10 Paternoster Square London EC4M 7LT

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Call: +44 (0)161 874 4222
Email: info@2ergo.com
Head office: 2ergo Group plc
4th Floor, Digital World Centre
1 Lowry Plaza, The Quays,
Salford, Manchester, M50 3UB
United Kingdom.
www.2ergo.com
Stock Code: RGO