

31 January 2014

## 2ergo Group plc

### Full year results

2ergo Group plc (AIM: RGO, "2ergo" or "the Group") the mobile solutions company, announces its full year results for the 12 months ended 31 August 2013. It will be posting to shareholders today its Annual Report and Accounts for 2013 (the "Report & Accounts") and Notice of Annual General Meeting (the "Notice").

The resolutions detailed in the Notice will be proposed at the Annual General Meeting of the Group, to be held at 11.30 am on 25 February 2014 at the offices of the Company's advisers MXC Capital at 15 Buckingham Gate, London, SW1E 6LB.

Copies of the Report & Accounts and the Notice are available from the Group's website in accordance with the AIM rules.

### Highlights

- Trials with high profile customers demonstrate strength and robustness of patented technology
- Podifi coupon and voucher redemption rates proven to be significantly ahead of traditional methods, with considerably enhanced data capture
- Comprehensive strategic review focused on larger sales opportunities and reducing costs
- Board changes announced with appointment of Ian Smith and Simon Duckworth in July 2013
- Operating loss from continuing operations £5.07 million (2012: Loss £16.40 million following non-cash impairment charge of £12.26 million)
- EBITDA loss from continuing operations<sup>(1)</sup> £3.28 million (2012: Loss £2.44 million)
- Placing and subscription raised a total of £5.7 million in the year
- Retention and development of key customers throughout period of change, together with strength of pipeline position 2ergo well for the coming months

*<sup>(1)</sup> stated before IFRS 2 share based payment charge*

Ian Smith, Executive Chairman commented

**“During the year the Group raised £5.7 million (net of issue costs) to provide additional working capital and the capital resources necessary to develop the podifi technology and associated sales strategies. The technology is now scalable and robust, as proven in several live client installations, and the pipeline is healthy.**

**“2ergo's patented technology is at an early stage of commercialisation but through several client pilots the business demonstrates significant potential whilst striving for a breakthrough to profitability. It is anticipated that full commercialisation of any one of these existing pilots would achieve this.”**

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## Strategic overview

Following the fundraise and Board changes in July 2013, 2ergo has carried out a comprehensive strategy review. This review has seen the Group continue to focus on its patented podifi and mobile marketing platforms, but with the emphasis on closing larger sales opportunities, whilst significantly reducing 2ergo's cost base.

As detailed in the circular posted to shareholders on 17 June 2013, customer uptake is taking longer than previously expected. The Board attribute this to the early stage of the market in terms of the education and adoption of contactless mobile technology. Whilst not yet leading to significant revenue generation, the Group now has a number of extremely successful case studies following trials of its technology with high profile customers. These case studies show exceptional results and are helping to shorten the time taken to close opportunities. In addition, the blue chip names within the pipeline also validate the strength of the technology and its application. The Board is encouraged by the progress made with pipeline development since the year end.

The success of the trials is testament to the stability and robustness of the podifi technology, following a period of significant investment in its development. The Group is keen to protect the uniqueness of the technology and has a number of patents granted and patents pending. The Board believes these patents hold great value for the Group. This is especially relevant in the case of the podifi patents, which cover contactless transactions between a phone and a pod-like device. In light of recent technology developments, particularly in the US, the Board are currently taking advice on how best to monetise its patents.

Following the conclusion of its planned exit from the commoditised areas of the mobile market during the year, the Group has continued to provide its core base of customers such as Orange Wednesdays, PizzaExpress, Ladbrokes, Phones4U and the NHS with an increasingly robust and reliable technology platform and extensive mobile marketing experience.

The market for 2ergo's technology is at an early stage of development and remains fragmented but as we have seen with some newly listed companies there is still investor appetite. The key to success will depend on attaining critical mass and it may well be that the market sees some form of consolidation among the smaller players before this happens. For now 2ergo remains a small business with significant potential but is still striving for the breakthrough to profitability. It is anticipated that full commercialisation of any one of the existing pilots would achieve this.

## Operational review

During the period the Group has undertaken a number of high profile trials of its podifi technology, including for Telefonica Ireland and Chelsea Football Club. The podifi mobile wallet allows clients to communicate with their customers in a targeted and meaningful manner enabling them to browse, save and store coupons and loyalty rewards on their smartphones. The mobile wallet, coupled with the podifi patented contactless redemption and payment technology, which integrates into any EPoS terminal, means 2ergo have closed the loop on coupon and loyalty reward redemption at the point of purchase, whilst also allowing valuable data to be collected.

These trials have shown coupon redemption rates significantly exceeding those commonly attributed to more traditional paper coupon and voucher based methods. Typically, the traditional methods show single figure redemption rates whereas the redemption rates utilising the podifi technology consistently exceed 40%. Furthermore, downloads of the podifi digital wallets have consistently exceeded expectations, demonstrating both the ease of use and demand for the technology, in addition to validating 2ergo's mobile marketing expertise.

Since the end of the financial year, Palmer & Harvey, the UK's leading delivered wholesaler, has entered into a project to trial podifi in 20 Mace convenience stores on behalf of the Costcutter Supermarkets Group. The trial, for which podifi has received support from a number of leading household name FMCG brands, will go live during February 2014. The project serves to further affirm Zergo's strategy, with a digital agenda seen as crucial to the convenience stores sector in response to the big supermarkets increasing their local footprint, and also enables the supporting brands to gain an insight into the spend patterns in store networks which have previously been offline and impossible to measure.

Hull University has become the latest domestic university to deliver offers and rewards to students on campus via a new relationship between Zergo's podifi technology and University of Hull Students Union. Based on the same formula which has been successfully deployed at other campuses including Salford and Leicester de Montfort, students will receive a blend of topical information, personalised offers and rewards via a branded mobile wallet. Further engagement with other businesses in the region is also planned.

Existing podifi client Jersey Telecom have further entrenched podifi into the marketing mix for businesses in Jersey by having the podifi mobile wallet app "JT Rewards" pre-loaded onto its latest range of Android smartphones. As a result, local businesses engaged by JT will be assured of their special offers being promoted to a wide audience of consumers and subsequently redeemed and measured in store via an interaction with JT branded podifi units.

These clients have demonstrated the stability and robustness of the Group's technology. Across all areas of the business the technology is highly scalable supported by either a managed service or self-service modules, meaning implementation for customers is fast and easy.

## Financial review

### £000 Continuing operations

	<b>Total 2013</b>	Before impairment 2012	Impairment 2012	Total 2012
Revenue	<b>3,521</b>	8,369	-	8,369
<b>Gross profit</b>	<b>1,190</b>	2,816	-	2,816
Overheads <sup>(1)</sup>	<b>(4,471)</b>	(5,259)	(12,260)	(17,519)
<b>EBITDA loss<sup>(1)</sup></b>	<b>(3,281)</b>	(2,443)	(12,260)	(14,703)
IFRS 2 charge	<b>(550)</b>	(37)	-	(37)
Amortisation and depreciation	<b>(1,241)</b>	(1,656)	-	(1,656)
<b>Operating loss</b>	<b>(5,072)</b>	(4,136)	(12,260)	(16,396)
Finance income	<b>2</b>	220	-	220
<b>Loss before tax</b>	<b>(5,070)</b>	(3,916)	(12,260)	(16,176)

<sup>(1)</sup> stated before IFRS 2 share based payment charge

Continuing Zergo's transition towards its stated commercial model of sales of its podifi technology supported by its advanced messaging and marketing platforms has seen the Group conclude its planned exit from certain of its legacy clients and areas of operation. This has resulted in a fall in revenues of over £4 million in its non-core, and now commoditised, low margin business - typically premium rate billing. This move away from its remaining premium rate clients has significantly reduced the Group's exposure to an increasingly onerous and penal regulatory landscape. Also, over £1 million of revenue generated in 2012 from one-off projects was not repeated as the Group moves away from bespoke, labour intensive contracts to the provision of highly scalable solutions. As a result, overall revenue declined from £8.4 million in 2012 to £3.5 million in 2013.

This fall in total revenue masks the increase in revenues in the Group's focus areas which, although taking longer than anticipated to come to fruition, are showing encouraging signs of a return to future revenue growth for Zergo. Revenues from certain core retained customers have grown significantly in the year and have continued to do so post the year end. As detailed in the strategic review and reflecting the stage of evolution of the contactless market, income from podifi services during the year was low, however the Board is encouraged by progress made since the end of the year.

The gross profit margin has benefited, as expected, from the results of the above transition. Although margins for the year are constant at 34%, 2012 margins reflected the benefit of certain one-off projects, with the gross margin from recurring business from that year being 26%. As the transition happened during the course of

2013, the full effect on margins will only be seen after the year end. Gross profit margins for the four months to December 2013 average 54%, showing the improvement in the quality of the Group's earnings.

Much has been done to reduce the Group's cost base to bring it more closely into line with the operating position. The cost base needs to be such that the technical and sales development required to drive the business forward can continue, whilst ensuring only essential costs are incurred. The Board feels that the cost base is now appropriate for the current stage of the business. In the year to August 2013, costs before share option charges, amortisation and depreciation were £4.5 million, compared to £5.3 million in 2012. The majority of this fall was due to a reduction in staff costs. In July 2013 full time staff numbers were reduced from 70 to 28. The full impact of the reduction in staff numbers will be seen in 2014 as will the effects of the Group's head office relocation which took place in December 2013. Cash overheads have been more than halved and are now running at the significantly reduced rate of circa £200k per month.

The loss from continuing operations before interest, depreciation, amortisation, impairment and share option charge (EBITDA) was £3.3 million (2012: £2.4 million) and the reported loss before tax and impairment charges was £5.1 million (2012: £3.9 million). The IFRS2 share option charge primarily relates to the share options issued in the July 2013 fundraise and is a non-cash item. EBITDA is a key financial performance indicator for the Group along with revenue, gross profit and the Group's cash balance.

The Group has £12.3 million (2012: £10.5 million) of unused tax losses carried forward, in respect of which no deferred tax asset has been recognised as the timing of utilisation of these losses is uncertain.

Net assets of the Group at 31 August 2013 were £4.8 million (2012: £3.1 million) and the Group held cash of £1.5 million (2012: £0.5 million).

During the year the Group raised £5.7 million (net of issue costs) to provide additional working capital and the capital resources necessary to develop the podifi technology and associated sales strategies. The technology is now scalable and robust, as proven in several live client installations and the pipeline is healthy. However, the Board continues to closely monitor the Group's cost base and cash balances as uncertainty surrounding the timing of the uptake of the podifi technology makes the forecasting of sales performance in the short and medium term difficult.

**Consolidated income statement**  
*for the year ended 31 August 2013*

	Note	<b>2013</b> <b>£000</b>	2012 £000
<b>Continuing operations</b>			
Revenue	2	<b>3,521</b>	8,369
Cost of sales		<b>(2,331)</b>	(5,553)
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<b>Gross profit</b>		<b>1,190</b>	2,816
Administrative costs		<b>(6,262)</b>	(19,212)
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<b>Operating loss</b>	3	<b>(5,072)</b>	(16,396)
Finance income	5	<b>2</b>	220
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<b>Loss before taxation</b>		<b>(5,070)</b>	(16,176)
Taxation	6	<b>432</b>	1,049
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<b>Loss for the financial year from continuing operations</b>		<b>(4,638)</b>	(15,127)
<b>Discontinued operations</b>			
Loss for the financial year from discontinued operations	20	-	(5,542)
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<b>Loss for the financial year</b>		<b>(4,638)</b>	(20,669)
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<b>Loss per share</b>			
<b>From continuing operations</b>			
Basic and diluted	7	<b>(4.04)p</b>	(43.58)p
<b>From continuing and discontinued operations</b>			
Basic and diluted	7	<b>(4.04)p</b>	(59.54)p

Consolidated statement of comprehensive income  
for the year ended 31 August 2013

	<b>2013</b> <b>£000</b>	2012 £000
Loss for the financial year	<b>(4,638)</b>	(20,669)
<b>Other comprehensive income/(loss)</b>		
Tax on items taken directly to equity	<b>80</b>	-
Reclassification from translation reserve on disposal of subsidiaries	-	(37)
Differences on translation of foreign operations	-	(69)
<b>Other comprehensive income/(loss) for the financial year, net of tax</b>	<b>80</b>	(106)
<b>Total comprehensive loss for the financial year</b>	<b>(4,558)</b>	(20,775)

Consolidated statement of financial position  
as at 31 August 2013

	Note	2013 £000	2012 £000
<b>Non-current assets</b>			
Intangible assets	8	3,592	3,884
Property, plant and equipment	9	283	564
		<b>3,875</b>	<b>4,448</b>
<b>Current assets</b>			
Trade and other receivables	10	640	1,089
Current tax receivable		282	292
Cash and cash equivalents	13	1,461	537
		<b>2,383</b>	<b>1,918</b>
<b>Total assets</b>		<b>6,258</b>	<b>6,366</b>
<b>Current liabilities</b>			
Trade and other payables	11	(1,282)	(2,595)
<b>Non-current liabilities</b>			
Other payables	11	-	(283)
Deferred tax liability	12	(147)	(395)
		<b>(147)</b>	<b>(678)</b>
<b>Total liabilities</b>		<b>(1,429)</b>	<b>(3,273)</b>
<b>Net assets</b>		<b>4,829</b>	<b>3,093</b>
<b>Capital and reserves attributable to equity holders of the parent</b>			
Share capital	14	3,979	364
Share premium	14	12,645	10,598
Investment in own shares	14	(1,225)	(1,225)
Merger relief reserve	14	496	414
Merger reserve		1,512	1,512
Other reserves	15	(304)	(304)
Share option reserve		1,287	873
Retained losses		(13,561)	(9,139)
<b>Total equity</b>		<b>4,829</b>	<b>3,093</b>

**Consolidated statement of changes in equity  
for the year ended 31 August 2013**

	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 (losses)/ earnings £000	Total £000
<b>Balance at 1 September 2011</b>	<b>362</b>	<b>10,874</b>	<b>(1,225)</b>	<b>3,375</b>	<b>1,512</b>	<b>(198)</b>	<b>839</b>	<b>8,152</b>	<b>23,691</b>
Loss for the financial year	-	-	-	-	-	-	-	(20,669)	(20,669)
<b>Other comprehensive income</b>									
Reclassification to retained losses on impairment	-	-	-	(3,375)	-	-	-	3,375	-
Reclassification from translation reserve on disposal of subsidiaries	-	-	-	-	-	(37)	-	-	(37)
Differences on translation of foreign operations	-	-	-	-	-	(69)	-	-	(69)
<b>Total comprehensive loss for the financial year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(3,375)</b>	<b>-</b>	<b>(106)</b>	<b>-</b>	<b>(17,294)</b>	<b>(20,775)</b>
<b>Transactions with owners</b>									
Issue of share capital	2	-	-	138	-	-	-	-	140
Reclassification of shares issued pursuant to acquisitions	-	(276)	-	276	-	-	-	-	-
IFRS 2 share based payment charge	-	-	-	-	-	-	37	-	37
Fair value of vested options lapsed in the year	-	-	-	-	-	-	(3)	3	-
	<b>2</b>	<b>(276)</b>	<b>-</b>	<b>414</b>	<b>-</b>	<b>-</b>	<b>34</b>	<b>3</b>	<b>177</b>
<b>Balance at 31 August 2012</b>	<b>364</b>	<b>10,598</b>	<b>(1,225)</b>	<b>414</b>	<b>1,512</b>	<b>(304)</b>	<b>873</b>	<b>(9,139)</b>	<b>3,093</b>
Loss for the financial year	-	-	-	-	-	-	-	(4,638)	(4,638)
<b>Other comprehensive income</b>									
Tax on items taken directly to equity	-	-	-	-	-	-	-	80	80
<b>Total comprehensive loss for the financial year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(4,558)</b>	<b>(4,558)</b>
<b>Transactions with owners</b>									
Issue of share capital	3,615	2,561	-	82	-	-	-	-	6,258
Issue costs	-	(514)	-	-	-	-	-	-	(514)
IFRS 2 share based payment charge	-	-	-	-	-	-	550	-	550
Fair value of vested options lapsed in the year	-	-	-	-	-	-	(136)	136	-
	<b>3,615</b>	<b>2,047</b>	<b>-</b>	<b>82</b>	<b>-</b>	<b>-</b>	<b>414</b>	<b>136</b>	<b>6,294</b>
<b>Balance at 31 August 2013</b>	<b>3,979</b>	<b>12,645</b>	<b>(1,225)</b>	<b>496</b>	<b>1,512</b>	<b>(304)</b>	<b>1,287</b>	<b>(13,561)</b>	<b>4,829</b>



Consolidated statement of cash flows  
for the year ended 31 August 2013

	2013 £000	2012 £000
<b>Cash flows from operating activities</b>		
Loss before taxation	(5,070)	(16,176)
Adjustments for:		
Impairment of assets	-	12,260
Depreciation	405	411
Amortisation	836	1,245
Share based payment expense	550	37
Net finance income	(2)	(220)
Decrease in trade and other receivables	449	774
(Decrease)/increase in trade and other payables	(1,116)	134
Net income tax received	286	398
<b>Net cash flows from operating activities- continuing operations</b>	<b>(3,662)</b>	<b>(1,137)</b>
<b>Net cash flows from operating activities- discontinued operations</b>	<b>-</b>	<b>(174)</b>
<b>Cash flows from investing activities</b>		
Payments to acquire property, plant and equipment	(124)	(215)
Payments to acquire intangible assets	(948)	(1,333)
Sale of business, net of cash disposed	-	1,762
Interest received	2	4
<b>Net cash flows from investing activities- continuing operations</b>	<b>(1,070)</b>	<b>218</b>
<b>Net cash flows from investing activities- discontinued operations</b>	<b>-</b>	<b>(598)</b>
<b>Cash flows from financing activities</b>		
Net proceeds from issue of equity	5,656	-
<b>Net cash flows from financing activities</b>	<b>5,656</b>	<b>-</b>
<b>Net increase/(decrease) in cash and cash equivalents in the year</b>	<b>924</b>	<b>(1,691)</b>
Cash and cash equivalents at beginning of year	537	2,228
<b>Cash and cash equivalents at end of year</b>	<b>1,461</b>	<b>537</b>

# Notes to the consolidated financial statements

## 1 Accounting policies

### **Basis of preparation**

While the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards as adopted in the European Union ("IFRS"), this announcement does not itself contain sufficient information to comply with IFRS. The accounting policies used in preparation of this preliminary announcement are those set out in the Group's 2013 annual report, which has been published today.

The financial information set out in this preliminary announcement does not constitute the Group's financial statement for the periods ended 31 August 2013 and 2012. The financial information for the period ended 31 August 2012 is derived from the statutory accounts for that year which have been delivered to the Registrar of Companies. The statutory accounts for the year ended 31 August 2013 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were unqualified and did not contain a statement under s498(2) or s498(3) of the Companies Act 2006.

### **Going concern**

These financial statements have been prepared on a going concern basis. The Group meets its day-to-day working capital requirements through its existing cash reserves.

The directors have prepared a business plan and cash flow forecast for the period to August 2015. The forecast contains certain assumptions about the level of future sales and the level of gross margins. These assumptions are the directors' best estimate of the future development of the business based on performance in the year to date and the current and expected future pipeline of opportunities.

The directors have taken steps to satisfy themselves about the robustness of sales forecasts, but acknowledge that uncertainty surrounding the timing of the uptake of the Group's technology makes the forecasting of sales performance in the short and medium term difficult. For this reason, the directors have also prepared a sensitised plan which shows a materially reduced level of sales together with mitigating actions in respect of cost reductions which could be taken in the event of such a sales variance. Both the business plan and the sensitised plan forecast the Group to have sufficient working capital to continue trading for the foreseeable future. On this basis, 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 on a regular basis and, if necessary, will explore banking facilities, further cost reductions, further equity investment or other corporate activity 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 below under Recently issued accounting pronouncements.

### **Basis of consolidation**

The consolidated financial statements consolidate those of Zergo Group plc ("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 acquisition method, other than for the original acquisition of Zergo Limited by Zergo Group plc which has been accounted for using the principles of merger accounting as permitted by IFRS 1. 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's accounting policies. The results of subsidiaries disposed of in the year ended 31 August 2012 were consolidated up until the date on which control passed and are included within profit or loss from discontinued operations as part of a single line item along with those major business lines discontinued in that year.

Any profit or loss arising from the sale of discontinued operations is presented as part of a single line item, "profit or loss from discontinued operations".

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.

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 and is used to make strategic decisions.

### **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, set up and activation 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. Set up and activation fees are generally recognised when the relevant service is available to the customer. When components of a single invoice are separately identifiable, such as set up 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 (5 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 (5 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. 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 on a straight line basis with the following lives:

Computer equipment	2 to 3 years
Office furniture and fittings	3 to 5 years

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

### **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. Receivables are assessed for impairment based on a number of factors including their credit-worthiness, previous payment history and future prospects. 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.

**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 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 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 assets and liabilities of overseas operations are translated at the rates of exchange ruling at the reporting date. Exchange differences arising on translation of the opening net assets 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 for non-market based vesting conditions 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 where a change occurs to the expectation of a market based vesting condition. 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 without a market based vesting condition, fair value is measured by the Black-Scholes pricing method. Where options are granted with a market based vesting condition, fair value is measured by the binomial 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. Where vested share options have lapsed, the value previously credited to the share option reserve in relation to those options is transferred to Retained Losses. Where share options are modified the fair value of those options is reassessed and the revised value is expensed over the vesting period of the modified option.

#### **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 in 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.

#### **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 Zergo 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 12 (Amendment)- Deferred tax- Recovery of underlying assets
- IAS 19 (Revised)- Employee benefits
- IAS 27 (Revised)- Separate financial statements
- IAS 28 (Revised)- Investments in associates and joint ventures
- IFRS 1 (Amendment)- Government loans
- IFRS 7 (Amendment)- Disclosures- Offsetting financial assets and financial liabilities
- IFRS 10- Consolidated financial statements
- IFRS 11- Joint arrangements
- IFRS 12- Disclosure of interests in other entities
- IFRS 13- Fair value measurement
- IFRIC 20- Stripping costs in the production phase of a surface mine

#### **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. There are no critical accounting judgements.

Critical accounting estimates and their underlying 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 critical accounting estimates the Group believes to have the most significant impact on the annual results under IFRS.

### **Intangible assets**

Intangible assets include intellectual property which is capitalised at cost and amortised on a straight line basis based upon the directors' estimate of its useful economic life. In addition, the carrying value of intellectual property is assessed when indications of impairment exist. The level of success of propositions and products based on this intellectual property may be different from the directors' estimates, which could impact the useful economic life of the intellectual property and operating results positively or negatively. The Group holds intellectual property with a net book value of £3,081,000 (2012: £2,969,000).

### **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 2013 is £511,000 (2012: £915,000).

### **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 2013 is £46,000 (2012: £257,000).

### **Share-based payments**

The Group calculates the share-based payment charge using the Black-Scholes option pricing model for options granted without a market based vesting condition and the Binomial option pricing model for those options granted with a market based vesting condition. Calculating the share-based payment charge requires the directors to make an estimate of the expected number of options which will vest, amongst other inputs to the relevant model (see note 16). The actual number of options which vest may be different from the directors' estimate, which could impact operating results positively or negatively. The value of the share-based payment charge in the year ended 31 August 2013 is £550,000 (2012: £37,000).

## **2 Segmental analysis**

The Group is organised into one principal operating division for management purposes based in the UK focussed on the monetisation of the Group's technology. Therefore the Group has only one operating segment and segmental information is not required to be disclosed. 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 customer in the year to 31 August 2013 were £0.7 million (2012: £2.2 million) and gross profit recognised was £22,000 (2012: £0.1 million).

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

	<b>2013</b>	2012
	<b>£000</b>	£000
United Kingdom	<b>3,308</b>	8,274
United States	<b>213</b>	95
	<b>3,521</b>	8,369

All non-current assets are held in the United Kingdom.

### 3 Operating loss

Operating loss is stated after charging to administrative costs:

	Continuing operations		Discontinued operations		Total	
	2013 £000	2012 £000	2013 £000	2012 £000	2013 £000	2012 £000
Depreciation of owned tangible assets	405	411	-	-	405	411
Amortisation of intangible assets	836	1,245	-	588	836	1,833
Impairment of assets <sup>(1)</sup>	-	12,260	-	3,495	-	15,755
Employee costs (see note 4)	3,493	3,218	-	1,056	3,493	4,274
Operating lease rentals	342	315	-	156	342	471
Auditor's remuneration						
Audit of parent and consolidated accounts	12	12	-	-	12	12
<i>Non-audit services</i>						
Audit of the Company's subsidiaries	19	23	-	-	19	23
Other non-audit services <sup>(2)</sup>	20	36	-	5	20	41
Research and development <sup>(3)</sup>	1,127	2,585	-	51	1,127	2,636

<sup>(1)</sup> Total assets impaired in the year to 31 August 2012 includes intangible assets of £15,416,000, tangible assets of £26,000 and other assets of £313,000.

<sup>(2)</sup> Other non-audit services includes tax services of £17,000 (2012: £21,000).

<sup>(3)</sup> Research and development costs include elements of amortisation, impairment and employee costs also included separately above.

### 4 Particulars of staff

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

	2013 No	2012 No
Technical	26	39
Sales and administration	41	75
	<b>67</b>	114

The aggregate payroll costs of these persons were:

	2013 £000	2012 £000
Wages and salaries	3,147	4,901
Share scheme costs <sup>(1)</sup>	550	37
Social security costs	347	412
Pension costs- defined contribution plan	98	161
Less: amounts capitalised	(649)	(1,237)
	<b>3,493</b>	4,274

<sup>(1)</sup> The IFRS 2 share scheme costs primarily relate to the share options issued in the July 2013 fundraising and are a non-cash item.

### Key management remuneration

Remuneration of the key management team, including executive directors, during the year was as follows:

2013	2012
------	------



	<b>£000</b>	£000
Aggregate emoluments including short-term employee benefits	<b>692</b>	643
Share scheme costs	<b>334</b>	7
Pension costs- defined contribution plan	<b>54</b>	55
	<b>1,080</b>	705

#### Directors' remuneration

Remuneration of directors during the year was as follows:

	<b>2013</b>	2012
	<b>£000</b>	£000
Aggregate emoluments including short-term employee benefits	<b>344</b>	372
Pension costs- defined contribution plan	<b>43</b>	46
Fees	<b>20</b>	-
	<b>407</b>	418

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

	<b>2013</b>	2012
	<b>£000</b>	£000
Aggregate emoluments including short-term employee benefits	<b>119</b>	113
Pension costs- defined contribution plan	<b>4</b>	21
	<b>123</b>	134

Retirement benefits are accruing to 2 (2012: 3) directors in respect of defined contribution schemes.

## 5 Finance income

<b>Finance income</b>	<b>2013</b>	2012
	<b>£000</b>	£000
Notional interest on contingent consideration	-	216
Interest income on short-term bank deposits	<b>2</b>	4
	<b>2</b>	220

## 6 Taxation

	<b>Continuing operations</b>		<b>Discontinued operations</b>		<b>Total</b>	
	<b>2013</b>	2012	<b>2013</b>	2012	<b>2013</b>	2012
	<b>£000</b>	£000	<b>£000</b>	£000	<b>£000</b>	£000
<b>Current tax</b>						
UK Corporation tax at 23.59% (2012: 25.17%)	<b>(272)</b>	(279)	-	(13)	<b>(272)</b>	(292)
Adjustments in respect of prior years	<b>8</b>	(272)	-	(125)	<b>8</b>	(397)
	<b>(264)</b>	(551)	-	(138)	<b>(264)</b>	(689)
<b>Deferred tax</b>						
In respect of current year	<b>(78)</b>	(814)	-	(161)	<b>(78)</b>	(975)

In respect of prior years	<b>(90)</b>	316	-	123	<b>(90)</b>	439
	<b>(168)</b>	(498)	-	(38)	<b>(168)</b>	(536)
<b>Tax on loss on ordinary activities</b>	<b>(432)</b>	(1,049)	-	(176)	<b>(432)</b>	(1,225)

#### Tax reconciliation

Loss before tax					<b>(5,070)</b>	(21,894)
Tax using UK corporation tax rate of 23.59% (2012: 25.17%)					<b>(1,196)</b>	(5,511)
Non-deductible expenses					<b>2</b>	2,189
Research and development tax credits					<b>(335)</b>	(324)
Share based payment temporary differences					<b>31</b>	31
Adjustment to current tax in respect of prior years					<b>-</b>	(397)
Adjustment to deferred tax in respect of prior years					<b>16</b>	439
Effect of change in tax rates					<b>81</b>	(115)
Utilisation of research and development tax credits					<b>282</b>	292
Movement in deferred tax not provided					<b>687</b>	2,171
<b>Tax on loss on ordinary activities</b>					<b>(432)</b>	(1,225)

## 7 Loss per share

The calculation of basic and diluted loss per share from continuing operations 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. Basic and diluted loss per share from continuing operations is calculated as follows:

	2013			2012		
	Loss per share pence	Loss £000	Weighted average number of ordinary shares	Loss per share pence	Loss £000	Weighted average number of ordinary shares
Basic and diluted loss per share	<b>(4.04)</b>	<b>(4,638)</b>	<b>114,870,138</b>	(43.58)	(15,127)	34,715,016

Basic and diluted loss per share from discontinued operations is calculated as follows:

	2013			2012		
	Loss per share pence	Loss £000	Weighted average number of ordinary shares	Loss per share pence	Loss £000	Weighted average number of ordinary shares
Basic and diluted loss per share	-	-	<b>114,870,138</b>	(15.96)	(5,542)	34,715,016

Basic and diluted loss per share from continuing and discontinued operations is calculated as follows:

	2013			2012		
	Loss per share pence	Loss £000	Weighted average number of ordinary shares	Loss per share pence	Loss £000	Weighted average number of ordinary shares
Basic and diluted loss per share	<b>(4.04)</b>	<b>(4,638)</b>	<b>114,870,138</b>	(59.54)	(20,669)	34,715,016

## 8 Intangible assets

	Goodwill £000	Intellectual property £000	Total £000
<b>Cost</b>			
At 1 September 2011	11,117	19,678	30,795
Additions- internally developed	-	1,237	1,237
Additions- purchased	-	586	586
Adjustment to contingent consideration	(2,379)	-	(2,379)
Disposals	(420)	(3,169)	(3,589)
<b>At 31 August 2012</b>	<b>8,318</b>	<b>18,332</b>	<b>26,650</b>
Additions- internally developed	-	649	649
Additions- purchased	-	299	299
Adjustment to contingent consideration	(404)	-	(404)
<b>At 31 August 2013</b>	<b>7,914</b>	<b>19,280</b>	<b>27,194</b>
<b>Amortisation and impairment</b>			
At 1 September 2011	-	7,322	7,322
Charge for the year	-	1,833	1,833
Impairment	7,403	8,013	15,416
Disposals	-	(1,805)	(1,805)
<b>At 31 August 2012</b>	<b>7,403</b>	<b>15,363</b>	<b>22,766</b>
Charge for the year	-	836	836
<b>At 31 August 2013</b>	<b>7,403</b>	<b>16,199</b>	<b>23,602</b>
<b>Net book value</b>			
<b>At 31 August 2013</b>	<b>511</b>	<b>3,081</b>	<b>3,592</b>
At 31 August 2012	915	2,969	3,884
At 1 September 2011	11,117	12,356	23,473

In the year ended 31 August 2012, the Group moved its focus away from providing mainstream mobile solutions, which were increasingly difficult to scale, and also disposed of its development company in India and its US and Australian businesses. Following this, together with the focus on the development and realisation of value from its podifi contactless mobile loyalty technology, the Board considered that the value of certain assets of the Group may no longer certainly be realisable through future cash flows. Accordingly intangible assets with a value of £15,416,000 were impaired in the year to 31 August 2012.

£10,295,000 of this charge was in respect of the impairment of Secure Connect, the Group's secure mobile communication protocol. Previously the Board had anticipated that the Secure Connect technology would be used as a stand-alone product and would have particularly strong potential in emerging markets such as Asia and South America. Following the decision to focus on the development of podifi, the Board now believes that this technology will form an element of the security solution for podifi's contactless mobile payment and wallet capability. However, due to the early stage of development of mobile wallets globally, it is difficult to forecast accurately the payback period for the Secure Connect technology. Therefore, in accordance with IAS 36, the Group recognised a non-cash impairment charge to goodwill of £7,403,000 and to intangible assets of £2,892,000 within continuing operations in the year to 31 August 2012 as the book value of the Secure Connect technology and associated goodwill was written down to £nil.

The remaining £1,760,000 intangible asset impairment charge recognised in the year to 31 August 2012 related to technologies for non-core business, which were written down to reflect the Group's new operating model. In addition, the total impairment charge for the year to 31 August 2012 included the impairment of assets relating to the discontinued operations with a value of £3,361,000.

The Group's goodwill relates to its previous acquisition of Ticketing and Couponing technology. An annual impairment review of goodwill arising on acquisition has been performed for the Ticketing and Couponing cash-generating unit. The Group's podifi technology is included within Intellectual Property at its carrying value of £1.8 million (2012: £1.3 million) and is being amortised over its estimated useful economic life. However, due to podifi's innovative technology, the timing and rate of growth for revenues from this cash-generating unit is uncertain. Therefore an impairment review has been performed for the podifi cash-generating unit.

The recoverable value of each unit has been based on its value in use. The cash flow projections, which were based on 12 month forecasts approved by the directors and then extended to cover up to a 6 year period, supported the carrying value of goodwill and the Group's intellectual property with no impairment required. Discount rates are determined by reference to relevant comparator companies.

Cash generating unit	Carrying value of goodwill and intangible assets £000	Period over which cash flows have been projected	Growth rate beyond management approved forecasts	Discount rate for cashflow projections
Ticketing and Couponing	511	5 years	0%	10%
podifi	1,776	6 years	5%	12%

The key assumption underlying the Ticketing and Couponing forecast is the continued profitability flowing from existing contracts. This assumption is based on management's experience and the historical success of loyalty campaigns operated by the Ticketing & Couponing cash-generating unit and the recent extension of contracts which have been in place for over 9 years. The forecast for the Ticketing & Couponing cash-generating unit provides sufficient headroom over the value of goodwill and intangible assets attributed to the cash-generating unit.

The key assumption underlying the podifi forecasts is the growth rate for use of podifi. The growth rate is based on numbers of clients forecast to be signed up for trials and expected conversion rates for full roll out of the podifi solution. Revenue streams from each client are derived from set-up, monthly licence and transactional fees. These assumptions are based on management's experience and industry forecasts for the growth in mobile couponing, mobile payments and mobile wallets. The forecast for podifi provides sufficient headroom over the value of the intellectual property attributed to the cash-generating unit.

The Group has no intangible assets with indefinite useful lives other than goodwill.

## 9 Property, plant and equipment

	Computer equipment £000	Office furniture and fittings £000	Total £000
<b>Cost</b>			
At 1 September 2011	1,904	788	2,692
Additions	215	-	215
Disposals	(381)	(63)	(444)
<b>At 31 August 2012</b>	<b>1,738</b>	<b>725</b>	<b>2,463</b>
Additions	120	4	124
<b>At 31 August 2013</b>	<b>1,858</b>	<b>729</b>	<b>2,587</b>
<b>Depreciation</b>			
At 1 September 2011	1,246	490	1,736
Charge for the year	307	104	411
Impairment	8	18	26
Disposals	(246)	(28)	(274)
<b>At 31 August 2012</b>	<b>1,315</b>	<b>584</b>	<b>1,899</b>
Charge for the year	310	95	405
<b>At 31 August 2013</b>	<b>1,625</b>	<b>679</b>	<b>2,304</b>

<b>Net book value</b>			
<b>At 31 August 2013</b>	<b>233</b>	<b>50</b>	<b>283</b>
At 31 August 2012	423	141	564
At 1 September 2011	658	298	956

## 10 Trade and other receivables

	<b>2013</b>	2012
	<b>£000</b>	£000
Trade receivables	424	977
Less: Provision for impairment of trade receivables	<b>(46)</b>	<b>(257)</b>
	<b>378</b>	720
Prepayments and accrued income	<b>262</b>	366
Other receivables	-	3
	<b>640</b>	1,089

The ageing of trade receivables that were not impaired at 31 August 2013 was:

	<b>2013</b>	2012
	<b>£000</b>	£000
Not past due	<b>232</b>	496
Up to 3 months past due	<b>124</b>	167
More than 3 months past due	<b>20</b>	5
	<b>376</b>	668

Accrued income and other receivables are not past due (2012: 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 not past due and overdue but not impaired trade receivables to ensure that no impairment exists. As at 31 August 2013, trade receivables of £48,000 (2012: £309,000) were impaired and provided for, all of which were more than 3 months old (2012: more than 3 months old). The amount of the provision was £46,000 as at 31 August 2013 (2012: £257,000). Movements on the provision for impairment of trade receivables are as follows:

	<b>2013</b>	2012
	<b>£000</b>	£000
At 1 September	<b>257</b>	236
Provision for receivables impairment	<b>37</b>	206
Receivables written off during the year	<b>(248)</b>	<b>(185)</b>
At 31 August	<b>46</b>	257

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:

<b>2013</b>	2012
<b>£000</b>	£000

Sterling	620	1,054
US Dollars	20	35
	<b>640</b>	<b>1,089</b>

## 11 Trade and other payables

	<b>2013</b>	2012
	<b>£000</b>	£000
<b>Current</b>		
Trade payables	752	1,518
Other payables	189	510
Deferred consideration	88	298
Accruals and deferred income	253	269
	<b>1,282</b>	<b>2,595</b>
<b>Non-current</b>		
Deferred consideration	-	283
	<b>1,282</b>	<b>2,878</b>

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

## 12 Deferred tax liability

The elements of deferred taxation are as follows:

	<b>2013</b>	2012
	<b>£000</b>	£000
Accelerated capital allowances and intellectual property	350	412
Share option charge	(203)	(17)
	<b>147</b>	<b>395</b>

Movement in deferred tax:

	Accelerated capital allowances and intellectual property £000	Research and development tax credit £000	Share option charge £000	Total £000
At 1 September 2011	1,388	(418)	(39)	931
(Credited)/charged to income statement	(976)	418	22	(536)
<b>At 31 August 2012</b>	<b>412</b>	<b>-</b>	<b>(17)</b>	<b>395</b>
Credited to income statement	(62)	-	(106)	(168)
Credited to equity	-	-	(80)	(80)
<b>At 31 August 2013</b>	<b>350</b>	<b>-</b>	<b>(203)</b>	<b>147</b>

No deferred tax asset is recognised for unused tax losses across the Group of £12.3 million (2012: £10.5 million).

## 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.

### 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:

	<b>2013</b>	2012
	<b>£000</b>	£000
<b>Cash</b>		
Sterling	<b>1,460</b>	400
US Dollars	<b>1</b>	137
	<b>1,461</b>	537

The Group has the following net trade receivables/(payables):

	<b>2013</b>	2012
	<b>£000</b>	£000
Sterling	<b>(393)</b>	(830)
US Dollars	<b>19</b>	32
	<b>(374)</b>	(798)

Following the disposal of non-core overseas operations in the year to 31 August 2012, foreign exchange risk is not material and therefore a sensitivity analysis has not been performed.

#### *Interest rate risk*

Sterling cash deposits are placed on deposit at the most favourable 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:

	<b>2013</b>	2012
	<b>Loans and</b>	Loans and
	<b>receivables</b>	receivables
	<b>£000</b>	£000
Trade receivables	<b>378</b>	720
Accrued income	<b>67</b>	182
Other receivables	<b>-</b>	3
Cash and cash equivalents	<b>1,461</b>	537

1,906                      1,442

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.

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

	<b>2013</b>	2012
	<b>Financial liabilities at amortised cost</b>	Financial liabilities at amortised cost
	<b>£000</b>	£000
Trade payables	752	1,518
Other payables	189	510
Accruals	253	269
Deferred consideration	88	581
<b>Amortised cost</b>	<b>1,282</b>	<b>2,878</b>

The remaining contractual term for all of the liabilities above is less than 6 months. The deferred consideration arising on the acquisition of Activemedia Technologies can be settled at the discretion of the Group by the issue of new ordinary shares in the Company or loan notes. The outstanding gross deferred consideration is £88,000 (2012: £595,000), £88,000 (2012: £298,000) of which is payable within 6 months. 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 2013 the total equity of the Group was £4,829,000 (2012: £3,093,000) and the Group held cash and cash equivalents of £1,461,000 (2012: £537,000) with £nil debt (2012: £nil). During the year ended 31 August 2013, the Company issued 360,953,540 1p ordinary shares through placings and subscriptions. In order to further maintain or adjust the capital structure in the future, the Group may make dividend payments to shareholders (should distributable reserves allow for it), 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 (2012: 500,000,000) ordinary shares of 1p each. The share capital allotted, called up and fully paid at 31 August 2013 was 397,891,130 (2012: 36,381,818) ordinary shares of 1p each, of which 899,726 (2012: 899,726) were held in treasury.

	<b>Number of shares</b>	<b>Share capital £000</b>	<b>Share premium £000</b>	<b>Merger relief reserve £000</b>
At 1 September 2011	36,201,800	362	10,874	3,375
Issue of share capital	180,018	2	-	138
Reclassification to retained (losses)/earnings on impairment of goodwill	-	-	-	(3,375)
Reclassification of shares issued pursuant to acquisitions	-	-	(276)	276
<b>At 31 August 2012</b>	<b>36,381,818</b>	<b>364</b>	<b>10,598</b>	<b>414</b>
Issue of share capital	361,509,312	3,615	2,561	82
Issue costs	-	-	(514)	-



<b>At 31 August 2013</b>	<b>397,891,130</b>	<b>3,979</b>	<b>12,645</b>	<b>496</b>
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#### 2012 movement

On 21 December 2011, the Company issued 180,018 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.

#### 2013 movement

On 1 October 2012, the Company issued 28,453,540 1p ordinary shares through a placing and subscription with new and existing shareholders at a price of 10p per ordinary share. The purpose of the placing and subscription was to provide additional working capital and the capital resources necessary to invest in the roll-out of the Group's contactless mobile technology solutions.

On 28 March 2013, the Company issued 555,772 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 4 July 2013, the Company issued 332,500,000 1p ordinary shares through a placing and subscription with new and existing shareholders at a price of 1p per ordinary share. The purpose of the placing and subscription was to provide additional working capital and the capital resources necessary to invest in the roll-out of the Group's contactless mobile technology solutions.

#### Investment in own shares

The Company holds the following shares in treasury:

	<b>Number</b>	<b>Total consideration £000</b>
At 1 September 2011, 31 August 2012 and 31 August 2013	899,726	1,225

## 15 Other reserves

	<b>Other reserve £000</b>	<b>Translation reserve £000</b>	<b>Total £000</b>
At 1 September 2011	(304)	106	(198)
Translation reserve on disposal of subsidiaries	-	(37)	(37)
Difference on translation of foreign operations	-	(69)	(69)
<b>At 31 August 2012 and 2013</b>	<b>(304)</b>	<b>-</b>	<b>(304)</b>

The other reserve represents the cost of the Company's shares held by the Employee Benefit Trust that are shown as a deduction against equity.

## 16 Share option scheme

The Company has a share option scheme for certain employees of the Group. Options are generally exercisable either at nominal value or at a price equal to the closing quoted market price of the Company's shares on the day immediately prior to 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.

<b>2013 Number of share</b>	<b>2013 Weighted average</b>	2012 Number of share	2012 Weighted average
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	options	exercise price £	options	exercise price £
Outstanding at the beginning of the year	2,618,678	0.75	2,850,974	0.61
Granted during the year	66,644,176	0.01	600,000	0.37
Forfeited in the year	(889,737)	0.92	(3,961)	1.13
Lapsed in the year	(524,975)	0.68	(828,335)	0.01
Outstanding at the end of the year	67,848,142	0.02	2,618,678	0.75
Exercisable at the end of the year	782,301	0.88	1,347,013	1.08

In the year ended 31 August 2013, options were granted on 24 July 2013. The aggregate of the estimated fair values of the options granted on this date was £665,882 and the share price on that date was £0.01875. In the year ended 31 August 2012, options were granted on 5 March 2012, 15 March 2012 and 12 July 2012. The aggregate of the estimated fair values of the options granted on those dates was £223,572 and the weighted average share price on those dates was £0.64.

The options granted on 24 July 2013 were granted in connection with the placing of shares on 4 July 2013. Each of Neale Graham and Barry Sharples were granted 10,000,000 of these options at nil cost ("Nil Cost Option"). The Nil Cost Option vested immediately on the date of grant, but is not exercisable until 12 months from that date. In the event that each holder ceases to be an employee of the Company, the Nil Cost Option shall not lapse but shall continue to subsist and be capable of being exercised in accordance with the scheme rules.

Each of Neale Graham, Barry Sharples and Jill Collighan were granted 10,000,000 options on 24 July 2013, in connection with the placing of shares on 4 July 2013, at an exercise price of £0.01 ("Performance Option"). The Performance Option vested immediately on the date of grant but is not exercisable until certain performance conditions have been achieved. 50% of the Performance Option becomes exercisable when the Company's share price reaches or exceeds £0.035 with the remaining 50% becoming exercisable when the Company's share price reaches or exceeds £0.07.

Also in connection with the placing of shares on 4 July 2013, Neale Graham was granted 8,412,088 options and Barry Sharples was granted 8,232,088 options on 24 July 2013, each at an exercise price of £0.01 ("Additional Option"). The Additional Option vested immediately on the date of grant. However, the Additional Option will not be exercisable until each holder ceases to be an employee of the Company, save for in the case of gross misconduct or voluntary termination (except as a result of ill health, death or disability).

Options outstanding under the Company's share option schemes at 31 August 2013 were as follows:

Name of scheme	2013	2012	Calendar year of grant	Exercise period	Exercise price per share
	No of options	No of options			
2003 Executive share option scheme	428,500	428,500	2003	2006-2013	£0.22
2004 EBT scheme	53,612	83,675	2004	2006-2014	£0.48
2004 Executive share option scheme	-	165,050	2004	2006-2014	£0.48
2005 Incentive share option scheme	116,618	371,486	2005	2007-2015	£1.72
2006 Incentive share option scheme	183,571	298,302	2006	2008-2016	£2.03
2010 Incentive share option schemes	-	400,000	2010	2013-2020	£0.70
	125,000	250,000	2012	2015-2022	£0.67
2011 Management incentive schemes	96,665	321,665	2011	2014-2021	£0.01
	200,000	200,000	2012	2015-2022	£0.01
	-	100,000	2012	2016-2022	£0.52
2013 Enterprise Management Incentive scheme	46,644,176	-	2013	2013-2023	£0.01
	20,000,000	-	2013	2013-2023	-

The weighted average remaining contractual life of these options is 9.8 years (2012: 5.5 years).

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, other than for those options granted with a market-based vesting condition, in which case fair value is determined by reference to the Binomial option pricing model.

The inputs into the option pricing models are as follows:

	<b>2013</b>	2012
Weighted average exercise price	<b>£0.01</b>	£0.38
Expected volatility	<b>0.00%-86.81%</b>	26.58%-40.64%
Expected life	<b>0.0-7.1 years</b>	3.0-7.1 years
Risk free interest rate	<b>0.00%-2.69%</b>	0.43%-2.69%
Expected dividends	<b>Nil</b>	Nil

The volatility of the Company's share price on each date of grant was calculated as the average of annualised standard deviations of daily continuously compounded returns on the Company's stock, calculated over 1, 2, 3, 4, 5, 6 and 7 years back from the date of grant, where applicable.

The Group recognised a charge of £550,000 (2012: £37,000) related to equity-settled share-based payment transactions in the year. £520,000 of this charge related to the Nil Cost Option and the Additional Option where the entire charge related to these options was recognised at the date of grant due to the vesting and exercise conditions attached to these options.

## 17 Operating lease commitments

At 31 August 2013, the Group had aggregate minimum lease payments under non-cancellable operating leases for office and server sites and server equipment as follows:

	<b>2013</b>	2012
	<b>£000</b>	£000
Due within 1 year	<b>128</b>	273
Due from one to five years	<b>-</b>	120
	<b>128</b>	393

The majority of the Group's lease agreements are for initial terms of between 1 and 2 years, with the lease agreements then becoming cancellable with 1 to 3 months' notice period. A new lease for the Group's head office has been entered after 31 August 2013 which can be cancelled after either 18 months or 5 years of its 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 (subsequently 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 £595,000 in 2013. The deferred contingent consideration, which is payable in tranches, is discounted and calculated as the sum of 2.8 times Ticketing & Couponing operating profit and 4 times Indian profit after tax for the year to 31 August 2012. 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. £507,000 of consideration has been settled to 31 August 2013, all of which has been settled by the issue of new ordinary shares in the Company.

## 19 Related party transactions

During the year ended 31 August 2013, the Group purchased corporate finance consultancy services to the value of £3,042 (2012: £nil) from MXC Capital Advisory LLP, a firm in which Ian Smith, the executive chairman of the Company, is a founding partner and shareholder. In addition, the Group purchased corporate finance consultancy services from MXC Capital Advisory LLP pursuant to the placing in July 2013 to the value of £100,000. These transactions were at arm's length on normal commercial terms. At the year end the Group owed MXC Capital Advisory LLP £76,151 (2012: £nil) including VAT in respect of these services. In addition, as part settlement for these corporate finance consultancy services, MXC Capital Advisory LLP was issued

5,000,000 ordinary shares and MXC Capital Limited, a company in which Ian Smith is a director, subscribed for 40,000,000 ordinary shares at a price of 1p per share.

During the year ended 31 August 2013, fees of £20,000 (2012: £nil) were charged by Mathian LLP for the services of Ian Smith as Executive Chairman of the Company. At the year end, amounts owed in respect of these services were £20,000 (2012: £nil) in accordance with the contractual payment terms.

None of the key management personnel of the Group owe any amounts to any company within the Group (2012: £nil), nor are any amounts due from any company in the Group to any of the key management personnel (2012: £nil).

## 20 Discontinued activities

On 24 February 2012 the Group disposed of 2ergo Americas Inc, which represented its non-core North and Latin American operations, for initial proceeds of \$3.05 million, and its Indian operations for a nominal sum. On 27 February 2012 the Group disposed of its Australian operations for a nominal sum. These disposals were as a result of the comprehensive strategic review carried out at the time which saw the Group move its focus away from providing mainstream mobile solutions. In addition, following the strategic review, the Group also discontinued certain of its UK legacy business lines during the year to 31 August 2012, such as offering subscription billing services to its clients. In accordance with IFRS 5 the results of these units are classified as discontinued operations in these financial statements.

The results of the discontinued operations up until the point of disposal, which have been disclosed separately in the consolidated income statement, as required by IFRS 5, are as follows:

	2012 £000
Revenue	1,557
Expenses	(6,693)
<b>Loss before tax</b>	<b>(5,136)</b>
Taxation on loss before tax	176
Loss on disposal of discontinued operations	(582)
<b>Net loss attributable to discontinued operations</b>	<b>(5,542)</b>

### Proceeds from disposal of 2ergo Americas

Pursuant to the Group's disposal of 2ergo Americas to SoundBite Communications Inc, as is common in such transactions, the Group agreed to indemnify the acquirer against certain claims that might arise relating to the period prior to the disposal up to a cap of the consideration received for the sale of 2ergo Americas. The indemnification period terminates on 24 February 2014. \$450,000 of further consideration due from the disposal is currently held in escrow to be used to settle any indemnification claims arising and has not been included in cash balances nor recognised as an asset of the Group. The US customer communications industry is characterised by frequent claims and litigation, including claims regarding patent and other intellectual property rights. On 5 April 2012 a class action suit was filed against sixteen defendants across the US mobile telecommunications market, including the major network carriers, alleging violation of the US Sherman Act. SoundBite Communications Inc, as the ultimate parent undertaking of 2ergo Americas, was named as a defendant in this case and therefore has sought indemnification from the Group. The directors view the claim as an example of the US approach to litigation and indeed 2ergo Americas has never contracted or done any business with the plaintiffs. The claim is to be defended vigorously but due to the uncertainty over the timing of the resolution of the case the consideration held in escrow has not been recognised in the proceeds from the disposal.

## 21 Report and accounts

A copy of the annual report and accounts will be sent to all shareholders with notice of the Annual General Meeting.