2ergo Group plc

Annual Report and Accounts
for the year ended 31 August 2012

Stock code: RGO

Contents

2ergo the owner and international provider of innovative proprietary contactless mobile technology podifi, delivers coupons and vouchers, loyalty, proximity and payment solutions to organisations of all sizes in order to assist them to develop and execute their mobile strategy.

podifi™

podifi is a variable range contactless communication technology solution deployable across multiple smartphone devices without the need for near field communications (NFC) capability to be prebuilt into handsets.

The podifi pod is a key element of the podifi solution and has been developed to allow for plug and play installation within a retailer's Electronic Point of Sale (EPOS) systems via a simple USB connector (other connection types available). This enables 2ergo to deploy the solution extremely quickly and with very little effort from the retailer.

The podifi pod collects and stores rich transactional information at the point of redemption and transmits this back to the podifi platform to allow for real time reporting and analysis.

podifi is at the heart of both TikTap and Incentifi (White Label) providing valuable data to Customer Insight Services.

Read more on page 04

TikTap

TikTap is a free social discovery application that enables consumers to search for, and navigate to, local business across the UK. It also provides the opportunity for merchants to create and publicise offers that can be redeemed in store via a unique low cost TikTap pod.

Read more on page 06

Customer Insight Services

Consumer insight is the key to developing a sustainable business and data from consumer behaviour is essential in making key business decisions. Moreover, understanding a customer's detailed buying habits is playing a very important role in the prediction of consumer behaviour today. All data across the podifi platform is collected providing valuable data analytics.

Read more on page 08

Strategic overview

2ergo has been transformed over the last 18 months following management changes and a comprehensive strategic review. The Group has 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, thereby significantly reducing its cost base.

2ergo is now structured around one technology and three scalable routes to market in the UK:

- **podifi:** the Group's contactless mobile technology aimed at large retailers and enterprises;
- **TikTap:** a local commerce contactless coupon redemption technology, which is based on the podifi platform, but is aimed at SMEs, local commerce and hospitality outlets; and
- **Customer insight services:** which will provide major brands with data and customer insights derived from consumer and retail activity across the podifi and TikTap platforms.

Operational review

Significant change has been carried out to align the business's resources and clients with its strategic objectives. Relationships with clients not in line with the Board's strategy have been terminated, internal departments have been restructured and sub-scale, non-core regional businesses sold.

The Group is now clearly focused on maximising returns from its innovative, proprietary and scalable contactless mobile technology solutions.

podifi

During the year, the Group has focused on and launched podifi, its contactless mobile technology platform. The podifi core technology is built upon more than 12 years' experience in delivering customer acquisition technology for clients, including Orange Wednesdays, which is believed to be one of the world's most successful mobile loyalty programmes.

Technology focus

podifi™

The scalable podifi platform empowers merchants and brands to create, launch and manage mobile coupon based offers and loyalty through to contactless redemption and payment within minutes. In addition, podifi incorporates proximity technology, allowing the delivery of personalised in-store communications and the issue of location-relevant offers and promotions.

The unique podifi pod is a key element of the podifi solution and has been developed to allow for plug and play installation within a retailer's EPOS systems via a simple USB connector (other connection types available). This enables 2ergo to deploy the solution extremely quickly and with very little effort from the retailer.

The podifi pod collects and stores rich transactional information at the point of redemption and transmits this back to the podifi platform to allow for real time reporting and analysis.

The podifi platform has been developed to be a simple self-service web tool which empowers merchants to create, launch and manage mobile coupon based offers, deals or loyalty programmes within minutes. podifi gives large retailers and enterprises complete control over their campaigns, whilst also providing extensive analytics of all of their customers' transactions over the podifi platform.

Until podifi, a key challenge that has prevented the mass adoption of mobile couponing, mobile loyalty and mobile payments within the retail sector has been the redemption of the offer at the cash till or point of sale.

Significantly, podifi makes use of standard technology already used in smartphones, and requires no additional handset chip nor any additional staff training. podifi pods placed discreetly at the point of sale can transact contactless mobile payments and act as redemption points to redeem mobile coupons or loyalty cards in real time, by simply plugging the pod into the retailer's EPOS system.

To facilitate the roll-out of podifi, the Group has been working closely with leading EPOS manufacturers, distributors and resellers, and has built strategic partnerships with a number of these organisations. Collectively they represent a significant portion of the UK market, accounting for over 400,000 EPOS installations in the UK. Partnering with leading EPOS manufacturers and distributors is a key element of the Group's roll-out strategy; such groups are being incentivised to distribute podifi through their extensive sales networks via revenue sharing agreements.

podifi can be easily incorporated into any mobile "app" or mobile web site within hours and is compatible with all currently available smartphones.

The Pod
podifi is a variable range contactless communication technology solution deployable across multiple smartphone devices without the need for NFC capability to be pre-built into handsets.

Plug In
The pod connects directly into an EPOS/till system via a USB or RS232 cable. There are no expensive software or hardware upgrades required, and once the offer is uploaded into the EPOS and podifi platforms the merchant can deploy multiple offers or deals.

Tap
In order for the technology to work, a user, with a podifi enabled device, simply has to tap their device over the podifi pod at which point a secure connection is established with the pod and the transaction is authenticated

Confirm
In the case of a mobile voucher, the data is sent into the EPOS system and further authenticated and on success the voucher is applied to the transaction. At this point the transaction is confirmed back to the podifi service and the voucher is marked as redeemed.

Collect
The unique ability of the podifi pod is that, whilst enabling contactless point of sale redemption, it also collects and collates redemption and transaction data to enable the merchant to change and adapt offers to suit stock levels, the market and customer, whilst also providing valuable data and customer analytics.

In addition, podifi incorporates proximity technology, allowing the delivery of personalised in-store communications and the issue of location-relevant offers and promotions. For example, pods placed at the entrance to the store can be used for consumer check-in services, whilst pods positioned on shelves in specific aisles can deliver offers specific to the products in that part of the store. The same location sensitive technology also allows customers to be tracked around the store, thereby creating in-store heat-maps, which provide valuable insight into customer behaviour.

2ergo is initially focusing on selling podifi directly to larger brands which are seeking to introduce contactless mobile coupon issuance and redemption, store check-in, customer loyalty and mobile wallet solutions.

This will be achieved in one of two ways: first, an off-the-shelf, white-label iOS/Android mobile application or a dedicated web site, which can be customised with the client branding. This service can be implemented and launched within hours of receiving client instructions. Alternatively, 2ergo will provide clients with a Software Development Toolkit which will allow the clients to rapidly integrate podifi into their existing app or service. Both solutions utilise the same underlying podifi technology and are also configurable by means of an online management control panel.

podifi is a scalable opportunity from which 2ergo will receive revenues from setup fees, monthly licence fees and transactional fees.

TikTap

TikTap is the Group's consumer facing local commerce contactless coupon redemption platform developed specifically to help retailers, hospitality outlets and SMEs to generate a mobile brand presence and attract customers to their store. It comprises a specially developed "TikTap" app (available on both iOS and Android platforms) and associated in-store "pods" (based on the podifi technology) attached to each participating outlet's cash till. These pods enable the

Technology focus

TikTap™

Means a great deal

TikTap is a free social discovery application that utilises podifi technology, enabling consumers to search for, and navigate to, local business across the UK. It also provides the opportunity for merchants to create and publicise offers that can be redeemed in store via a unique low cost TikTap pod.

customer to redeem offers simply by tapping their smartphone over the pod at point of sale.

Launched during the final quarter of the year, TikTap is being rolled out in phases in partnership with local government, retailers, business forums and city centre management groups. In addition, the TikTap technology has been integrated into "TubeMap", the official licensed Transport for London tube map application.

With over 5 million downloads and 100,000 daily users, TubeMap is the most downloaded and used cross-platform tube map smartphone application. This rich application provides travel alerts, live departure boards and station information, helping users find stations and plan journeys as well as providing Oyster card balances. Following the integration with TikTap, TubeMap users can also now take advantage of easy-to-redeem money off vouchers and coupons, thereby creating a significantly enhanced user experience.

As with podifi, 2ergo will accrue a one-off fee for each installed TikTap pod and further recurring revenues from monthly licence fees per pod, as well as transaction fees.

Customer insight

Both podifi and TikTap provide valuable consumer and enterprise data analytic insights through consumer and retail activity across the platforms. This provides the Group with additional opportunities to monetise such insight through brand advertising, the provision of consumer and business data and renting access to the pod network, with an agreement already signed with a leading global information services provider.

TikTap offers, coupons & vouchers

It is predicted that the mobile coupon and vouchers industry will generate over £27bn pounds with 600m regular mobile coupon users worldwide by 2016. This will be supported by an 8% redemption rate through mobile in comparison to a 1% redemption rate from paper coupons.

Despite this 33% of UK consumers don't fully utilise coupons/vouchers and loyalty programmes because they forget to carry the cards or vouchers, and 36% don't understand their loyalty scheme entitlements.

Retailers are also unable to measure redemption rates in real time and collect essential consumer insight as they are reliant upon accurate documentation of redemption data which needs to be manually transferred by merchants back to the original offer site.

TikTap 'closes the loop' for both the customer and the retailer at the point of sale by using a contactless device (known as a 'pod'), with simple plug and play installation.

There is no requirement for expensive software upgrades or purchases. The coupons/vouchers are issued to the customer through a smartphone app and are redeemed by tapping the phone on the pod at the point of sale, removing the need for paper vouchers or any further interaction with the till.

Through a simple self-service web interface, merchants can promote their offers to potential customers. App users simply:

1. Download the app from either iTunes or Google Play
2. Register on the TikTap app to activate the app
3. Use the search facility to find local retailers and offers available nearby
4. Select relevant offers and "tik" to add to wallet
5. Visit the merchant and "tap" the phone over the pod to receive the discount off the bill

Financial review

The income statement reflects the disposal of the Group's international operations and the discontinuation of certain UK legacy business lines, such as offering subscription billing services to clients. These items are shown under 'Discontinued Operations'.

Headline numbers for continuing operations are:

£000 Continuing Operations	Before impairment 2012	Impairment 2012	**Total 2012**	2011
Revenue	8,369	–	**8,369**	10,116
Gross profit	2,816	–	**2,816**	3,786
Overheads	(5,296)	(12,260)	**(17,556)**	(6,285)
EBITDA loss	(2,480)	(12,260)	**(14,740)**	(2,499)
Amortisation and depreciation	(1,656)	–	**(1,656)**	(1,206)
Operating loss	(4,136)	(12,260)	**(16,396)**	(3,705)
Net finance income/(expense)	220	–	**220**	(72)
Loss before tax	(3,916)	(12,260)	**(16,176)**	(3,777)

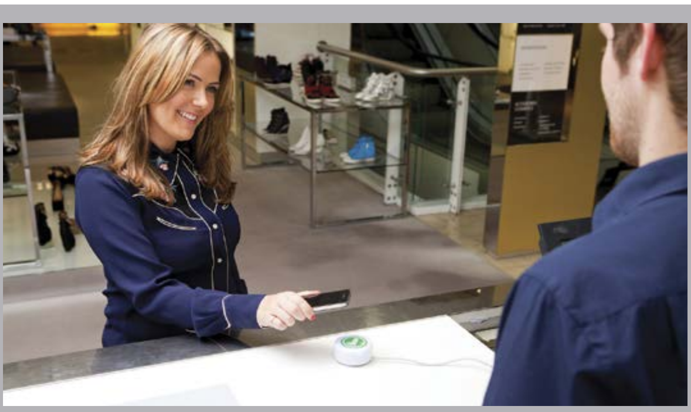
The retained revenue for the year was £8.4 million (2011: £10.1 million). The podifi and TikTap propositions were only launched commercially during the last quarter of 2012, and had little opportunity to impact the revenues for the year.

2011 revenue also included build fees for smartphone applications and other difficult to scale commoditised solutions which have not been pursued in 2012, as a result of the Group's decision to focus on more scalable activities.

Technology focus

Customer Insight Services

Forecasting buying habits and lifestyle preferences is traditionally an expensive process of data mining and analysis from many sources. Obtaining this information can consist of many aspects like analysing credit card purchases, magazine subscriptions, loyalty card membership, surveys, and customer registration. However, for small companies these mechanisms prove out of reach.



Gross profit from continuing operations was £2.8 million (2011: £3.8 million) reflecting a gross margin of 34%. The Board is confident that the Group will significantly increase future margins under the new operating model.

The strategic review included a detailed appraisal of costs. As a result, overheads for continuing operations fell by £1.0 million to £5.3 million (2011: £6.3 million). In addition, an overhead saving of approximately £250,000 per month was achieved through the disposal of the Group's non-core overseas businesses during the year.

The loss from continuing operations before interest, depreciation, amortisation and impairment charges was £2.5 million (2011: loss £2.5 million).

The review also included an analysis of the Group's assets. This has resulted in a one-off, non-cash impairment charge of £12.3 million within continuing operations in the year. Approximately £10.3 million of this charge was in respect of the impairment of Secure Connect, the Group's secure mobile communication protocol. The Board 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 has recognised a non-cash impairment charge of £10.3 million within continuing operations, as the book value of the Secure Connect technology and associated goodwill was written down to £nil. The remaining £2.0 million impairment charge relates to technologies for non-core business, which were written down to reflect the Group's new operating model.

Before the impairment charge, the pre-tax loss from continuing activities was £3.9 million (2011: loss £3.8 million). The Group's reported pre-tax loss after the

Utilising podifi technology 2ergo is able to capture this data enabling even the smallest of businesses to tap into this information at a very low cost. Through customer analytics, companies can make decisions with confidence because every decision is based on facts and objective data, not merely speculation.

By continuing to improve customer prediction techniques using podifi it will become a necessity rather than a convenient commodity for businesses to use these customer analytics on a regular basis. With this valuable information there is an opportunity to fine-tune retail operations and store owner/manager decisions. Rapid decision-making will increase in speed and effectiveness as podifi will enable decisions to be taken effectively in the knowledge that the data gathered is up to date and accurate.

impairment charge was £16.2 million (2011: loss £3.8 million).

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

As a result of the Group's refocus and the disposal of the regional businesses, as expected a one-off pre-tax loss in respect of Discontinued Operations of £5.7 million was incurred during the year. This arose as follows:

	£m
Trading loss from discontinued UK activities and disposed international businesses	1.6
Loss on disposal of international businesses	0.6
Non-cash impairment of intangible assets relating to discontinued activities	3.5
	5.7

Following the above impairments and disposals, net assets of the Group at 31 August 2012 were £3.1 million (2011: £23.7 million). As at 31 August 2012, cash balances were £0.5 million (2011: £2.2 million).

On 1 October 2012, the Group completed the placing of 28,453,540 new ordinary shares with both new and existing shareholders. Strong aftermarket demand from investors resulted in the number of shares being offered increasing from 22,000,000 and leading to aggregate proceeds of £2.7 million (net of issue costs) being raised to provide additional working capital and the capital resources required to undertake the necessary investment in the roll-out of the podifi and TikTap contactless mobile technology platforms.

These proceeds are already enabling the Group to accelerate the roll-out of its network of pods in strategic locations with key clients. 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 through the various routes to market renders any forecasting of sales performance in the short and medium term difficult.

Recent developments and outlook

The Group is seeing good demand for its podifi technology with the level and nature of enquiries and opportunities from new and existing clients gaining momentum. 2ergo has now established a firm foothold within a growing and specialist section of the mobile market with its podifi technology validated by leading companies from the mobile network, retail and hospitality sectors.

The sales pipeline is strong and growing across all areas of the business, including retailers, hospitality venues, local government and town centre groups. Furthermore, the Group has continued to sign up new partnership agreements with EPOS resellers and distributors. Twenty-five EPOS resellers have now signed up, who are collectively responsible for over 400,000 EPOS terminal installations across the UK.

Overall, the Group is operating in line with the Board's expectations and it anticipates revenue growth and a return to profitability in 2013.

Board of directors

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 (London) Limited. Following its sale to Menzies, Keith is now a strategic business consultant. Keith has been a non-executive director of 2ergo since 2001 and has been a member of the audit and remuneration committees since 2004.

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 Colligan
Group Finance 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.

The directors present their annual report, the audited consolidated financial statements and the audited Company financial statements for the year ended 31 August 2012.

Principal activities, business review and future developments

As detailed on page 04 of the Management review, following a comprehensive strategic review, the principal activity of the Group is now the exploitation of the Group's podifi contactless mobile technology for the provision of mobile coupons, loyalty schemes, payments and wallets.

A detailed review of the business, together with the outlook for the future, is contained in the Management review on pages 04 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
BA Sharples
J Collighan
K Seeley
MS Caller (resigned 16 March 2012)

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 2012 Aggregate emoluments and fees £000	**31 August 2012 Short-term benefits £000**	**31 August 2012 Pension costs £000**	31 August 2011 Aggregate emoluments and fees £000	31 August 2011 Short-term benefits £000	31 August 2011 Pension costs £000
NS Graham	**109**	**4**	**21**	108	4	21
BA Sharples	**100**	**4**	**21**	108	4	21
J Collighan	**118**	**1**	**4**	116	1	4
K Seeley	**25**	**–**	**–**	30	–	–
MS Caller	**11**	**–**	**–**	15	–	–

The directors hold the following share options:

	Options over ordinary shares of 1p each	
	31 August 2012	31 August 2011
NS Graham	**257,383**	132,383
BA Sharples	**132,383**	132,383
J Collighan	**889,204**	764,204
K Seeley	**–**	–
MS Caller	**–**	–

The market price of the Company's shares at the end of the financial year was 43.5p and the range of the market price during the year was between 43.5p and 82.5p.

Substantial Shareholdings

At 28 November 2012, 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	**%**
N Wray	10,490,917	16.41
Aviva plc	8,428,774	13.18
NS Graham	8,233,822	12.88
BA Sharples	7,233,822	11.31
Brewin Dolphin	5,600,000	8.76
K Seeley	2,871,329	4.49

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 08 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 which consists of all non-executive directors. 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.

The Board has also established an Audit Committee which consists of all 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 180,018 (2011: 197,892) 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 in the year to 31 August 2011 through a Placing to existing shareholders at a price of £1.26 per share. 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 podifi and TikTap contactless mobile technology platforms.

The Company holds 899,726 (2011: 899,726) ordinary shares as treasury shares. At 31 August 2012, the number of ordinary shares held in treasury represented 2.5% (2011: 2.5%) 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:

New and evolving technology
Whilst the directors believe there exists a viable and buoyant market for the Group's propositions, there can be no assurance that the technology will prove to be attractive to potential customers. The development of a market for the Group's propositions is affected by many factors, some of which are beyond the Group's control, including the cost of the Group's propositions themselves, regulatory requirements, customer perceptions of the efficacy and reliability of the propositions and customer reluctance to buy a new proposition. The Group's strategy is formulated by management with over 80 combined years' experience of the mobile industry and executed by a vastly experienced management team.

Proprietary technology
The Group currently derives a competitive advantage from its proprietary technology, including podifi. Patent applications have been granted to, or applications have been filed by, the Group over certain of its 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 podifi platform 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.

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 (2011: £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 63 days (2011: 36 days) of average supplies for the year, reflecting the move from the provision of mainstream mobile solutions to podifi.

Off-Balance Sheet Arrangements

The Group does not have any financing arrangements not included in the consolidated 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 reappoint 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
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Manchester
M50 3UB
29 November 2012

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.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Group's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order 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 website. 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 2012 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 auditors

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 2012 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
29 November 2012

Consolidated income statement

for the year ended 31 August 2012

Continuing operations	Note	Before impairment 2012 £000	Impairment 2012 £000	Total 2012 £000	2011 £000
Revenue	2	**8,369**	**–**	**8,369**	10,116
Cost of sales		**(5,553)**	**–**	**(5,553)**	(6,330)
Gross profit		**2,816**	**–**	**2,816**	3,786
Administrative costs		**(6,952)**	**(12,260)**	**(19,212)**	(7,491)
Operating loss	3	**(4,136)**	**(12,260)**	**(16,396)**	(3,705)
Finance expense	5	**–**	**–**	**–**	(75)
Finance income	5	**220**	**–**	**220**	3
Loss before taxation		**(3,916)**	**(12,260)**	**(16,176)**	(3,777)
Taxation	6			**1,049**	520
Loss for the financial year from continuing operations				**(15,127)**	(3,257)
Discontinued operations					
(Loss)/profit for the financial year from discontinued operations	20			**(5,542)**	692
Loss for the financial year				**(20,669)**	(2,565)
Loss per share					
From continuing operations					
Basic and diluted	7			**(43.58)p**	(9.76)p
From continuing and discontinued operations					
Basic and diluted	7			**(59.54)p**	(7.69)p

Consolidated statement of comprehensive income

for the year ended 31 August 2012

	2012 £000	2011 £000
Loss for the financial year	**(20,669)**	(2,565)
Other comprehensive (loss)/income		
Reclassification from translation reserve on disposal of subsidiaries	**(37)**	–
Differences on translation of foreign operations	**(69)**	106
Other comprehensive (loss)/income for the financial year, net of tax	**(106)**	106
Total comprehensive loss for the financial year	**(20,775)**	(2,459)

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Consolidated statement of financial position

as at 31 August 2012

	Note	2012 £000	2011 £000
Non-current assets			
Intangible assets	8	**3,884**	23,473
Property, plant and equipment	9	**564**	956
		4,448	24,429
Current assets			
Trade and other receivables	10	**1,089**	3,770
Current tax receivable		**292**	–
Cash and cash equivalents	13	**537**	2,228
		1,918	5,998
Total assets		**6,366**	30,427
Current liabilities			
Trade and other payables	11	**(2,595)**	(2,630)
Non-current liabilities			
Other payables	11	**(283)**	(3,175)
Deferred tax liability	12	**(395)**	(931)
		(678)	(4,106)
Total liabilities		**(3,273)**	(6,736)
Net assets		**3,093**	23,691
Capital and reserves attributable to equity holders of the parent			
Share capital	14	**364**	362
Share premium	14	**10,598**	10,874
Investment in own shares	14	**(1,225)**	(1,225)
Merger relief reserve	14	**414**	3,375
Merger reserve		**1,512**	1,512
Other reserves	15	**(304)**	(198)
Share option reserve		**873**	839
Retained (losses)/earnings		**(9,139)**	8,152
Total equity		**3,093**	23,691

These financial statements were approved by the Board on 29 November 2012 and signed on its behalf by

J Collighan
Director

NS Graham
Director

Consolidated statement of changes in equity

for the year ended 31 August 2012

	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
Balance at 1 September 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**
Loss for the financial year	–	–	–	–	–	–	–	(20,669)	(20,669)
Other comprehensive income									
Reclassification to retained (losses)/earnings on impairment	–	–	–	(3,375)	–	–	–	3,375	–
Reclassification from translation reserve on disposal of subsidiaries	–	–	–	–	–	(37)	–	–	(37)
Differences on translation of foreign operations	–	–	–	–	–	(69)	–	–	(69)
Total comprehensive loss for the financial year	**–**	**–**	**–**	**(3,375)**	**–**	**(106)**	**–**	**(17,294)**	**(20,775)**
Transactions with owners									
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	–
	2	**(276)**	**–**	**414**	**–**	**–**	**34**	**3**	**177**
Balance at 31 August 2012	**364**	**10,598**	**(1,225)**	**414**	**1,512**	**(304)**	**873**	**(9,139)**	**3,093**

Consolidated statement of cash flows

for the year ended 31 August 2012

	2012 £000	2011 £000
Cash flows from operating activities		
Loss before taxation	**(16,176)**	(3,777)
Adjustments for:		
Impairment of assets	**12,260**	–
Depreciation	**411**	395
Amortisation	**1,245**	811
Share-based payment expense	**37**	156
Net finance (income)/cost	**(220)**	72
Decrease in trade and other receivables	**774**	1,804
Increase/(decrease) in trade and other payables	**134**	(630)
Net income tax received	**398**	483
Net cash flows from operating activities – continuing operations	**(1,137)**	(686)
Net cash flows from operating activities – discontinued operations	**(174)**	3,001
Cash flows from investing activities		
Payments to acquire property, plant and equipment	**(215)**	(239)
Payments to acquire intangible assets	**(1,333)**	(2,928)
Sale of business, net of cash disposed	**1,762**	–
Interest received	**4**	3
Net cash flows from investing activities – continuing operations	**218**	(3,164)
Net cash flows from investing activities – discontinued operations	**(598)**	(1,470)
Cash flows from financing activities		
Net proceeds from issue of equity	**–**	2,897
Proceeds from exercise of options over shares held in EBT	**–**	2
Net cash flows from financing activities	**–**	2,899
Net (decrease)/increase in cash and cash equivalents in the year	**(1,691)**	580
Effect of currency translation changes	**–**	162
Cash and cash equivalents at beginning of year	**2,228**	1,486
Cash and cash equivalents at end of year	**537**	2,228

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. The Group meets its day-to-day working capital requirements through its existing cash reserves and raised £2.7 million (net of costs) from the issue of shares on 1 October 2012. 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 reflects the new business model and takes 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 banking 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 26.

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 acquisition 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. 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. The results of subsidiaries disposed of are 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 following the Group's strategic review during the 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.

1 Accounting policies continued

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 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 (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. 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 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's 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.

1 Accounting policies continued

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 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.

1 Accounting policies continued

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 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 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 27 Separate financial statements
- IAS 28 Investments in Associates & joint ventures
- IFRS 9 Financial instruments
- IFRS 10 Consolidated financial statements
- IFRS 11 Joint arrangements
- IFRS 12 Disclosure of interests in other entities
- IFRS 13 Fair value measurement

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.

1 Accounting policies continued

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 and products 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 £2,969,000 (2011: £12,356,000).

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 2012 is £915,000 (2011: £11,117,000).

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 2012 is £257,000 (2011: £236,000).

Contingent consideration

The consideration payable for the acquisition of Activemedia Technologies Limited included a deferred element which was contingent on the performance of the acquired business in the year to 31 August 2012 (see note 18). The value of contingent consideration recognised was therefore based on the directors' estimates of that future performance and was discounted. The actual performance was different from the directors' estimates, which impacted 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 2012 is £581,000 (2011: £3,315,000), the movement reflecting differences between the directors' estimates and actual performance to 31 August 2012.

2 Segmental analysis

During the year, the Group disposed of its interests in the Americas (other than in relation to the Microsoft Innovation Outreach Programme), Australia and India and has also discontinued certain of its UK legacy business lines, such as offering subscription services to its clients. Accordingly these operations have now been classed as discontinued operations. The Group is now organised into one principal operating division for management purposes based in the UK with revenue being derived from 3 routes to market, being podifi, TikTap and Customer Insight Services. As a result of these changes the Group has only one operating segment and segmental information is not required to be disclosed separately. 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 2012 were £2.2 million (2011: £2.8 million) and gross profit recognised was £0.1 million (2011: £0.1 million).

All revenues are from external customers.

	Continuing operations	**Discontinued operations**				
		EMEA	**Americas**	**Australia**	**India**	**Total**
	2012	**2012**	**2012**	**2012**	**2012**	**2012**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Revenue	**8,369**	**–**	**1,160**	**198**	**199**	**9,926**

	Continuing operations	Discontinued operations				
		EMEA	Americas	Australia	India	Total
	2011	2011	2011	2011	2011	2011
	£000	£000	£000	£000	£000	£000
Revenue	10,116	4,700	1,906	513	433	17,668

Continuing revenues can be attributed to the following countries, based on the customers' location, as follows:

	2012 £000	2011 £000
United Kingdom	**8,300**	10,114
United States	**69**	–
Rest of world	**–**	2
	8,369	10,116

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3 Operating loss

Operating loss is stated after charging to administrative costs:

	Continuing operations		Discontinued operations		Total	
	2012 £000	2011 £000	**2012 £000**	2011 £000	**2012 £000**	2011 £000
Depreciation of owned tangible assets	**411**	395	**–**	86	**411**	481
Amortisation of intangible assets	**1,245**	811	**588**	1,288	**1,833**	2,099
Impairment of assets[1]	**12,260**	–	**3,495**	–	**15,755**	–
Employee costs (see note 4)	**3,218**	4,084	**1,056**	2,057	**4,274**	6,141
Operating lease rentals	**315**	299	**156**	590	**471**	889
Auditor's remuneration						
Audit of parent company and consolidated accounts	**12**	12	**–**	–	**12**	12
Audit of the Company's subsidiaries	**23**	20	**–**	–	**23**	20
Other non-audit services[2]	**36**	18	**5**	–	**41**	18
Research and development	**265**	287	**51**	–	**316**	287

[1] Total assets impaired includes intangible assets of £15,416,000, tangible assets of £26,000 and other assets of £313,000.
[2] Other non-audit services includes tax services of £21,000 (2011: £11,000).

4 Particulars of staff

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

	2012 No.	2011 No.
Technical	**39**	74
Sales and administration	**75**	92
	114	166

The aggregate payroll costs of these persons were:

	2012 £000	2011 £000
Wages and salaries	**4,901**	7,205
Share scheme costs	**37**	156
Social security costs	**412**	599
Pension costs – defined contribution plan	**161**	222
Less: amounts capitalised	**(1,237)**	(2,041)
	4,274	6,141

Key management remuneration

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

	2012 £000	2011 £000
Aggregate emoluments including short-term employee benefits	**643**	780
Share scheme costs	**7**	66
Pension costs – defined contribution plan	**55**	50
	705	896

4 Particulars of staff continued

Directors' remuneration

Remuneration of directors during the year was as follows:

	2012 £000	2011 £000
Aggregate emoluments including short-term employee benefits	372	386
Pension costs – defined contribution plan	46	46
	418	432

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

	2012 £000	2011 £000
Aggregate emoluments including short-term employee benefits	113	112
Pension costs – defined contribution plan	21	21
	134	133

The remuneration of individual directors is disclosed in the Directors' report on page 12. Retirement benefits are accruing to 3 (2011: 3) directors in respect of defined contribution schemes.

5 Finance expense and finance income

Finance expense	2012 £000	2011 £000
Notional interest due on contingent consideration	–	75

Finance income	2012 £000	2011 £000
Notional interest on contingent consideration	216	–
Interest income on short-term bank deposits	4	3
	220	3

6 Taxation

	Continuing operations		Discontinued operations		Total	
	2012 £000	2011 £000	2012 £000	2011 £000	2012 £000	2011 £000
Current tax						
UK Corporation tax at 25.17% (2011: 27.17%)	(279)	–	(13)	–	(292)	–
Adjustments in respect of prior years	(272)	–	(125)	–	(397)	–
	(551)	–	(138)	–	(689)	–
Deferred tax						
In respect of current year	(814)	(537)	(161)	287	(975)	(250)
In respect of prior years	316	17	123	–	439	17
	(498)	(520)	(38)	287	(536)	(233)
Tax on loss on ordinary activities	(1,049)	(520)	(176)	287	(1,225)	(233)

Tax reconciliation		
Loss before tax	(21,894)	(2,798)
Tax using UK corporation tax rate of 25.17% (2011: 27.17%)	(5,511)	(760)
Non-deductible expenses	2,189	152
Research and development tax credits	(324)	(373)
Exercise of options and employee share acquisition relief	–	41
Share-based payment temporary differences	31	(31)
Adjustment to current tax in respect of prior years	(397)	–
Adjustment to deferred tax in respect of prior years	439	17
Effect of change in tax rates	(115)	–
Utilisation of research and development tax credits	292	375
Movement in deferred tax not provided	2,171	348
Other	–	(2)
Tax on loss on ordinary activities	(1,225)	(233)

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:

	Loss per share pence	**Loss £000**	**2012 Weighted average number of ordinary shares**	Loss per share pence	Loss £000	2011 Weighted average number of ordinary shares
Basic and diluted loss per share	**(43.58)**	**(15,127)**	**34,715,016**	(9.76)	(3,257)	33,369,925

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

	Loss per share pence	**Loss £000**	**2012 Weighted average number of ordinary shares**	Earnings per share pence	Profit £000	2011 Weighted average number of ordinary shares
Basic and diluted loss per share	**(15.96)**	**(5,542)**	**34,715,016**	2.07	692	33,369,925

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

	Loss per share pence	**Loss £000**	**2012 Weighted average number of ordinary shares**	Loss per share pence	Loss £000	2011 Weighted average number of ordinary shares
Basic and diluted loss per share	**(59.54)**	**(20,669)**	**34,715,016**	(7.69)	(2,565)	33,369,925

8 Intangible assets

	Goodwill £000	**Intellectual property £000**	**Total £000**
Cost			
At 1 September 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 changes	–	(57)	(57)
At 31 August 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)
At 31 August 2012	**8,318**	**18,332**	**26,650**
Amortisation			
At 1 September 2010	–	5,223	5,223
Charge for the year	–	2,099	2,099
At 31 August 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)
At 31 August 2012	**7,403**	**15,363**	**22,766**
Net book value			
At 31 August 2012	**915**	**2,969**	**3,884**
At 31 August 2011	11,117	12,356	23,473
At 1 September 2010	12,806	10,128	22,934

8 Intangible assets continued

The Group has been transformed over the last 18 months following management changes and a comprehensive strategic review. The Group has 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 the strategic review, 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.

£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 has recognised a non-cash impairment charge to goodwill of £7,403,000 and to intangible assets of £2,892,000 within continuing operations 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 within continuing operations relates 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 includes the impairment of assets relating to the discontinued operations with a value of £3,361,000.

An annual impairment review of goodwill arising on acquisition has been performed for the podifi (formerly Ticketing & Couponing) cash-generating unit. The recoverable value of the 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 a 2 year period, supported the carrying value of goodwill with no impairment required. The Group has no intangible assets with indefinite useful lives other than goodwill.

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
podifi	915	2 years	0%	12%

The key assumptions underlying these forecasts are the growth rates for use of, and gross margins for, podifi and its associated propositions. Growth rates are based on numbers of clients forecast to be signed up to podifi solutions each month and allow for monthly churn. Revenue streams from each client are derived from set-up, monthly licence and transactional fees. Gross margins are based on the Group's standard sales contracts. These assumptions are based on management's experience and industry forecasts for the growth in mobile couponing, mobile payments and mobile wallets, predicted in numerous analyst reports. Discount rates are determined by reference to relevant comparator companies.

Due to podifi's innovative technology, the timing and rate of growth for revenues from this cash-generating unit is uncertain. The forecasts for podifi provide sufficient headroom over the value of goodwill and intangible assets attributed to the cash-generating unit.

9 Property, plant and equipment

	Computer equipment £000	Office furniture and fittings £000	Total £000
Cost			
At 1 September 2010	1,662	776	2,438
Additions	241	12	253
Effect of currency translation changes	1	–	1
At 31 August 2011	**1,904**	**788**	**2,692**
Additions	215	–	215
Disposals	(381)	(63)	(444)
At 31 August 2012	**1,738**	**725**	**2,463**
Depreciation			
At 1 September 2010	907	348	1,255
Charge for the year	339	142	481
At 31 August 2011	**1,246**	**490**	**1,736**
Charge for the year	307	104	411
Impairment	8	18	26
Disposals	(246)	(28)	(274)
At 31 August 2012	**1,315**	**584**	**1,899**
Net book value			
At 31 August 2012	**423**	**141**	**564**
At 31 August 2011	658	298	956
At 1 September 2010	755	428	1,183

10 Trade and other receivables

	2012 £000	2011 £000
Trade receivables	**977**	2,912
Less: Provision for impairment of trade receivables	**(257)**	(236)
	720	2,676
Prepayments and accrued income	**366**	884
Other receivables	**3**	210
	1,089	3,770

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

	2012 £000	2011 £000
Not past due	**496**	1,578
Up to 3 months past due	**167**	882
More than 3 months past due	**5**	194
	668	2,654

Accrued income and other receivables are not past due (2011: not past due).

10 Trade and other receivables continued

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 2012, trade receivables of £309,000 (2011: £258,000) were impaired and provided for, all of which were more than 3 months old (2011: more than 3 months old). The amount of the provision was £257,000 as at 31 August 2012 (2011: £236,000). Movements on the provision for impairment of trade receivables are as follows:

	2012 £000	2011 £000
At 1 September	**236**	151
Provision for receivables impairment	**206**	473
Receivables written off during the year	**(185)**	(388)
At 31 August	**257**	236

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:

	2012 £000	2011 £000
Sterling	**1,054**	2,561
US Dollars	**35**	668
Indian Rupees	**–**	260
Australian Dollars	**–**	281
	1,089	3,770

11 Trade and other payables

	2012 £000	2011 £000
Current		
Trade payables	**1,518**	1,325
Other payables	**510**	338
Deferred contingent consideration	**298**	140
Accruals and deferred income	**269**	827
	2,595	2,630
Non-current		
Deferred contingent consideration	**283**	3,175
	2,878	5,805

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 tax liability

The elements of deferred taxation are as follows:

	2012 £000	2011 £000
Accelerated capital allowances and intellectual property	**412**	1,388
Trade losses	**–**	(418)
Share option charge	**(17)**	(39)
	395	931

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 2010	1,170	–	(6)	1,164
Charged/(credited) to income statement	218	(418)	(33)	(233)
At 31 August 2011	**1,388**	**(418)**	**(39)**	**931**
Charged/(credited) to income statement	(976)	418	22	(536)
At 31 August 2012	**412**	**–**	**(17)**	**395**

No deferred tax asset is recognised for unused tax losses across the Group of £10.5 million (2011: £6.0 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:

	2012 £000	2011 £000
Cash		
Sterling	**400**	1,751
US Dollars	**137**	50
Argentine Pesos	**–**	17
Indian Rupees	**–**	89
Australian Dollars	**–**	71
	537	1,978
Cash equivalent		
Sterling	**–**	250
	537	2,228

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

	2012 £000	2011 £000
Sterling	**(830)**	675
US Dollars	**32**	416
Argentine Pesos	**–**	5
Indian Rupees	**–**	58
Australian Dollars	**–**	197
	(798)	1,351

13 Financial instruments and financial risk management continued

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 from continuing operations:

	+5% 2012 £000	**-5% 2012 £000**	+5% 2011 £000	-5% 2011 £000
Net assets				
US Dollars	**(2)**	**2**	69	(77)
Argentine Pesos	**–**	**–**	9	(10)
Indian Rupees	**–**	**–**	15	(16)
Australian Dollars	**–**	**–**	33	(36)

	+5% 2012 £000	**-5% 2012 £000**	+5% 2011 £000	-5% 2011 £000
Loss before tax				
US Dollars	**–**	**–**	21	(23)
Argentine Pesos	**–**	**–**	2	(2)
Indian Rupees	**–**	**–**	23	(25)
Australian Dollars	**–**	**–**	21	(23)

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:

	2012 Loans and receivables £000	2011 Loans and receivables £000
Trade receivables	**720**	2,676
Accrued income	**182**	380
Other receivables	**3**	210
Cash and cash equivalents	**537**	2,228
	1,442	5,494

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

13 Financial instruments and financial risk management continued

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 maintained, but did not utilise, an overdraft facility, secured on the assets of 2ergo Limited. At the date of these financial statements, the facility continued to have not been utilised.

	2012 Financial liabilities at amortised cost £000	2011 Financial liabilities at amortised cost £000
Trade payables	**1,518**	1,325
Other payables	**510**	338
Accruals	**269**	825
Deferred contingent consideration	**581**	3,315
Amortised cost	**2,878**	5,803

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 outstanding gross deferred contingent consideration is £595,000 (2011: £3,555,000), £298,000 (2011: £140,000) of which is payable within 6 months with the balance being due 15 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 2012 the total equity of the Group was £3,093,000 (2011: £23,691,000) and the Group held cash and cash equivalents of £537,000 (2011: £2,228,000) with £nil debt (2011: £nil) and has an as yet unutilised overdraft facility in place. On 1 October 2012, the Company issued 28,453,540 1p ordinary shares through a placing and subscription. In order to further 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 (2011: 500,000,000) ordinary shares of 1p each. The share capital allotted, called up and fully paid at 31 August 2012 was 36,381,818 (2011: 36,201,800) ordinary shares of 1p each, of which 899,726 (2011: 899,726) were held in treasury.

	Number of shares	Share capital £000	Share premium £000	Merger relief reserve £000
At 1 September 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**
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
At 31 August 2012	**36,381,818**	**364**	**10,598**	**414**

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.

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.

Placing and Subscription October 2012

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 podifi and TikTap contactless mobile technology platforms.

Investment in own shares

The Company holds the following shares in treasury:

	Number	Total consideration £000
At 1 September 2010, 31 August 2011 and 31 August 2012	899,726	1,225

15 Other reserves

	Other reserve £000	Translation reserve £000	Total £000
At 1 September 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)**
Translation reserve on disposal of subsidiaries	–	(37)	(37)
Difference on translation of foreign operations	–	(69)	(69)
At 31 August 2012	**(304)**	**–**	**(304)**

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.

	2012 Number of share options	**2012 Weighted average exercise price £**	2011 Number of share options	2011 Weighted average exercise price £
Outstanding at the beginning of the year	**2,850,974**	**0.61**	1,849,076	1.12
Granted during the year	**600,000**	**0.37**	1,560,000	0.19
Exercised in the year	**–**	**–**	(4,731)	0.48
Forfeited in the year	**(3,961)**	**1.13**	(103,371)	1.73
Lapsed in the year	**(828,335)**	**0.01**	(450,000)	0.97
Outstanding at the end of the year	**2,618,678**	**0.75**	2,850,974	0.61
Exercisable at the end of the year	**1,347,013**	**1.08**	1,350,974	1.08

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. 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.

Options outstanding under the Company's share option schemes at 31 August 2012 were as follows:

Name of scheme	**2012 No. of options**	**2011 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	83,675	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	371,486	2005	2007-2015	£1.72
2006 Incentive share option scheme	298,302	298,302	2006	2008-2016	£2.03
2007 Incentive share option scheme	–	3,961	2007	2008-2017	$3.93
2010 Incentive share option schemes	400,000	400,000	2010	2013-2020	£0.70
	250,000	–	2012	2015-2022	£0.67
2011 Management incentive schemes	321,665	1,100,000	2011	2014-2021	£0.01
	200,000	–	2012	2015-2022	£0.01
	100,000	–	2012	2016-2022	£0.52

The weighted average remaining contractual life of these options is 5.5 years (2011: 6.5 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.

16 Share option scheme continued

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

	2012	2011
Weighted average exercise price	**£0.38**	£0.95
Expected volatility	**26.58%-40.64%**	36.19%-43.77%
Expected life	**3.0-7.1 years**	2.5-6.5 years
Risk free interest rate	**0.43%-2.69%**	1.50%-4.94%
Expected dividends	**Nil**	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 2, 3, 4, 5, 6 and 7 years back from the date of grant, where applicable.

The Group recognised a charge of £37,000 (2011: £156,000) related to equity-settled share-based payment transactions in the year.

17 Operating lease commitments

At 31 August 2012, the Group had aggregate minimum lease payments under non-cancellable operating leases for office and server sites and server equipment as follows:

	2012 £000	2011 £000
Due within 1 year	**273**	460
Due from one to five years	**120**	474
	393	934

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 (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 £901,000 in 2012. 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. £419,000 of consideration has been settled to 31 August 2012, 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 2012, the Group purchased legal advisory services to the value of £nil (2011: £111,502) from Pannone LLP, a firm in which MS Caller, then 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 (2011: £nil) in respect of these services.

None of the key management personnel of the Group owe any amounts to any company within the Group (2011: £nil), nor are any amounts due from any company in the Group to any of the key management personnel (2011: £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 which has seen 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, 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	2011 £000
Revenue	**1,557**	7,552
Expenses	**(6,693)**	(6,573)
(Loss)/profit before tax	**(5,136)**	979
Taxation on (loss)/profit before tax	**176**	(287)
Loss on disposal of discontinued operations	**(582)**	–
Net (loss)/profit attributable to discontinued operations	**(5,542)**	692

The net assets and liabilities at disposal and the loss on disposal were as follows:

	2012 £000
Total proceeds	**1,938**
Intangible assets	(1,445)
Property, plant and equipment	(129)
Goodwill	(420)
Trade and other receivables	(900)
Cash and cash equivalents	(176)
Trade and other payables	614
Deferred tax liability	9
Net assets disposed of	**(2,447)**
Transaction and other costs of disposal	(110)
Reclassification from Translation reserve on disposal of subsidiaries	37
Loss on disposal	**(582)**

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. The indemnification period terminates on 24 February 2014. $620,000 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 Post balance sheet event

On 1 October 2012, the Company issued 28,453,540 ordinary shares pursuant to a placing, raising £2.7 million, net of issue costs.

Company balance sheet

as at 31 August 2012

	Note	2012 £000	2011 £000
Fixed assets			
Goodwill	4	**1,221**	–
Investments in subsidiaries	5	**1,138**	13,554
		2,359	13,554
Current assets			
Debtors	6	**5,608**	7,040
Cash at bank and in hand		**–**	253
		5,608	7,293
Current liabilities			
Creditors: amounts falling due within one year	7	**(374)**	(174)
Net current assets		**5,234**	7,119
Total assets less current liabilities		**7,593**	20,673
Creditors: amounts falling due after more than one year	8	**(283)**	(3,175)
Net assets		**7,310**	17,498
Capital and reserves			
Share capital	9	**364**	362
Share premium	9	**10,598**	10,874
Investment in own shares	10	**(1,225)**	(1,225)
Merger relief reserve	10	**414**	3,375
Share option reserve	10	**873**	839
Profit and loss account	10	**(3,714)**	3,273
Shareholders' funds	10	**7,310**	17,498

These financial statements were approved by the Board on 29 November 2012 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 2012.

Taxation

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

Goodwill

Goodwill 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.

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 £10,362,000 (2011: £367,000).

3 Particulars of staff

The Company had no staff during the year (2011: no staff). Details of directors' remuneration are contained in note 4 to the consolidated financial statements.

4 Goodwill

	£000
Cost and net book value	
At 1 September 2011	–
Transfer from investments on transfer of trade from Activemedia Technologies Limited to 2ergo Limited	1,221
At 31 August 2012	**1,221**

5 Investments

Investments in subsidiaries

	£000
Cost	
At 1 September 2011	13,554
Disposals	(1,115)
Share-based payment charge	37
Fair value of vested options lapsed in the year	(3)
Revision to estimate of deferred contingent consideration	(2,379)
Transfer to goodwill on transfer of trade from Activemedia Technologies Limited to 2ergo Limited	(1,221)
At 31 August 2012	**8,873**
Impairment	
At 1 September 2011	–
Impairment of investment in Broca Limited	7,735
At 31 August 2012	**7,735**
Net book value	
At 31 August 2012	**1,138**
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%
TikTap Limited	Communications	England & Wales	Ordinary 100%
Marblesquare Limited	Non-trading	England & Wales	"A" and "B" Ordinary 100%
Activemedia Technologies Limited	Non-trading	England & Wales	Ordinary 100%
Broca Limited	Dormant	England & Wales	Ordinary 100%
podifi Limited	Dormant	England & Wales	Ordinary 100%
Broca Communications Limited*	Dormant	England & Wales	Ordinary 100%
Sure on Sight Limited*	Dormant	England & Wales	Ordinary 100%
2ergo Inc*	Communications	United States	Ordinary 100%
Georgia Holding Company Inc*	Dormant	United States	Ordinary 100%
M-Invent Inc*	Dormant	United States	Ordinary 100%
Proteus Movil SA*	Dormant	Argentina	Ordinary 100%

* held indirectly

6 Debtors

	2012 £000	2011 £000
Amounts owed from Group undertakings	**5,597**	6,831
Prepayments and accrued income	**11**	105
Other debtors	**–**	104
	5,608	7,040

7 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**67**	17
Deferred contingent consideration	**298**	140
Accruals and deferred income	**9**	17
	374	174

8 Creditors: amounts falling due after more than one year

	2012 £000	2011 £000
Deferred contingent consideration	**283**	3,175

9 Share capital and premium

The authorised share capital of the Company is 500,000,000 (2011: 500,000,000) ordinary shares of 1p each. The share capital allotted, called up and fully paid at 31 August 2012 was 36,381,818 (2011: 36,201,800) ordinary shares of 1p each, of which 899,726 (2011: 899,726) were held in treasury.

	Number of shares	Share capital £000	Share premium £000	Total £000
At 1 September 2011	36,201,800	362	10,874	11,236
Issue of share capital	180,018	2	–	2
Reclassification of shares issued pursuant to acquisitions		–	(276)	(276)
At 31 August 2012	**36,381,818**	**364**	**10,598**	**10,962**

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.

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

Placing and Subscription October 2012

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 podifi and TikTap contactless mobile technology platforms.

10 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 2011	362	10,874	(1,225)	3,375	839	3,273	17,498
Issue of share capital	2	–	–	138	–	–	140
Reclassification from retained earnings on impairment of investment	–	–	–	(3,375)	–	3,375	–
Reclassification of shares issued pursuant to acquisitions	–	(276)	–	276	–	–	–
Share-based payment charge (see note 16 to the consolidated financial statements)	–	–	–	–	37	–	37
Fair value of vested options lapsed in the year	–	–	–	–	(3)	–	(3)
Loss for the financial year	–	–	–	–	–	(10,362)	(10,362)
Balance at 31 August 2012	**364**	**10,598**	**(1,225)**	**414**	**873**	**(3,714)**	**7,310**

11 Related party transactions

The directors have taken advantage of the exemption in FRS 8 and have not disclosed transactions with other wholly owned Group undertakings. There were no other related party transactions.

Shareholder notes

Company information

Directors	K Seeley (Non–Executive Chairman) NS Graham (Chief Executive Officer) J Colligan (Group Finance Director) BA Sharples (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
Auditor	Grant Thornton UK LLP Statutory Auditor 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

2ergo

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