



# red24 plc Financial Report

1 April 2009 - 31 March 2010





red24 is a provider of a range of security risk management services, offering preventative and reactive advice to help individuals and organisations to avoid and manage security risks to themselves, their families and their organisations. The products are distributed through leading international financial service companies.



red24 London Office

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## HIGHLIGHTS

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red24 plc (“red 24” or the “Group”) is pleased to announce its results for the year ended 31 March 2010.

- Revenue increased by 29% to £4,287,744 (2009: £3,320,725)
- Profit Before Tax up 17% to £628,294 (2009: £536,737)
- Basic EPS of 1.43p (2009: 0.95p)
- Maiden dividend payment of 0.15p per share paid in January
- Net cash increased to £937,885 (2009: £327,836)
- Two main distribution deals renewed for a further three years
- Three contracts with leading US underwriters commenced in January 2010 to provide additional special risk services

### **Simon Richards, Chairman, commented:**

“This has been an excellent year for the Group and one that saw us build on the sound platform created in the previous year. The strength of our performance was across the board, with revenues, profits and cash generation all showing marked improvements on the prior year and providing us with the confidence to pay our first dividend.

“During the course of the year we renewed our two key distribution deals with TravelGuard and HSBC for a further three years which reaffirms the benefit these customers see in our products and provides opportunities to further grow the business. Since then we have added further resources to meet the demand for additional special risk services and it is pleasing to note that we have already had notable successes in this field. With this substantial progress in our business, both old and new, we continue to view the future with confidence.”

## CHAIRMAN'S STATEMENT

We have continued with the excellent progress the business has made in the past two years.

### Introduction

I am pleased to present our annual report for the year ended 31 March 2010.

### Financial Overview

I am pleased to report that, since the half yearly report, we have continued with the excellent progress the business has made in the past two years. Compared with the last financial year revenue has increased by 29% to £4,287,744 from £3,320,725 and a profit before tax of £628,294 is an increase of 17% on the prior year's profit of £536,737. This improvement is entirely due to the growth in the red24 business which, as discussed further below, is attributable partly to one-off responses and partly due to the significant expansion of our services to insurance providers.

Counter-intuitively, the improved profitability has led to a significant reduction in the tax charge as there is a greater chance that at least some of the tax losses incurred in earlier years can be utilised. Thus, there is little difference this year between before and after tax profits, all of which have been retained bar the modest but significant maiden dividend of 0.15p per share paid in January 2010. The Board intend to pursue a progressive dividend policy. Clearly the exact dividend will be determined by the events of 2010 but the Board intend to pursue a similar timetable to last year, that is to declare the amount of the dividend at the time of release of the half yearly statements that will be payable to shareholders mid-January.

The retained profits have improved the balance sheet as has the decision by warrant holders to exercise their warrants. The only unexercised warrants that remain are held by Sidebell Limited and were not exercised in compliance with their undertaking not to exercise if to do so would have triggered a bid obligation and involved the company in the costs associated with such a bid. During the year we repaid the remaining loan notes and next year will benefit from the corresponding reduction in finance costs.

As a result, the net assets per share have more than doubled to 2.65p, much of which is represented by cash, which has increased by 55%. The balance sheet also shows a significant rise in debtors, which reflects both the increase in activity and also the changing nature of some of the revenue streams, where payment follows performance rather than being on a monthly retainer. The increased level of response work does require the retention of significant cash reserves to meet the working capital demands of a crisis, but there is still sufficient cash for the Board to begin to consider the acquisition of additional capabilities to expand the business further.

### red24

red24 is a global security service providing preventative and reactive advice to help individuals and businesses avoid and manage personal risks to themselves, their staff and their families.

Revenues for the red24 business segment grew by 49%. As I mentioned at the time of the half year report, the strength of the rand against both sterling and the dollar has tended to increase the costs of our Crisis Risk Management Centre (CRM) in Cape Town where we have little local revenue. At the half year the effect was a 15% rise in costs and this trend continued in the second half, meaning the exchange rate pushed costs up by 17.6% for the year as a whole.

However, the growth in business has enabled us to absorb these cost increases. Of the increase in revenue some 10% came about from an increase in response work for those clients who do not buy the product on an inclusive basis. Such revenues are clearly unpredictable and only arise where there is a security crisis or a natural disaster that affects members.

The other major source of increasing revenue comes from the opportunities to provide additional services to special risk insurance providers. I alluded to this in the half year report as market changes have led to new

Revenue  
increased by 29%

Profit before tax  
increased by 17%

Net cash  
increased by  
186%

## CHAIRMAN'S STATEMENT

market entrants who require response providers. Since then we have succeeded in becoming the retained provider for certain special risks with three leading US underwriters. These contracts only took effect at the beginning of January and are generally for three years.

The expansion of the business has required a change in premises and in November 2009 we moved in to the London Underwriting Centre in the City of London where we are very close to our key insurance markets. The increased proportion of our sales to North America has led to our incorporating a US subsidiary, red24 Inc and we anticipate that this company will become a fully functioning subsidiary, with local employees, during the course of the coming year.

### Training

The Arc Training International Academy for Security Management is one of the UK's leading providers of security management training courses and one of the best-known international security management training companies in the world. The courses offer a range of qualifications and education for full-time security professionals and for managers for whom security is one of their key responsibilities. Each year a published programme of courses, open to all, is run in the UK and, increasingly, overseas where they may be held as Arc courses or in conjunction with local training partners.

The Training segment has seen a 23% fall in revenues in the year, but the impact on profit has been much less marked as more work has been conducted overseas where hotel costs, which are the largest single cost in running a course, are significantly lower. We are actively seeking to recruit more trainers, either in the UK or South Africa to enable us to meet demand and until the right personnel are in place progress in this business segment may be limited.

### Outlook

The greatly improved financial performance of the business has put the group in a position to take advantage of new opportunities that may arise. This has been put into good effect in the last six months and other opportunities are under consideration. Amongst the considerations are the margins achievable, the Board being unanimous in agreeing that we do not wish to enter low margin security businesses, which would include labour intensive activities and the distribution of manufactured products. We have worked hard to establish a reputation for good quality work for well established clients and see future growth both with our existing services and by adding other services that are likely to be of assistance to our customers.

Clearly, there are risks to any business and these are considered in the Directors' Report. Nonetheless, the Board feel encouraged by the progress of the last year and are confident of further progress to come. We would hope that in time the share price will reflect the improved outlook for earnings and also the quality of those earnings when compared to others in the sector.

### Staff

Our staff are absolutely crucial to the quality of service provided and to creating a working environment where we can attract good quality people who want to come and work for us. The Board are most grateful to all the staff for their hard work and are gratified that so many of them are choosing to build their careers with the group. This was exemplified by the success of the last offer under the staff share loan scheme where more than a quarter of the staff took up the opportunity offered to buy shares in the company.

### Simon Richards

Chairman  
10 June 2010

Board encouraged by solid progress of the business and have declared a maiden dividend

## DIRECTORS' REPORT

Year ended 31 March 2010

The directors present their report and the audited financial statements of the company and of the group for the year ended 31 March 2010.

### Principal activities, business review, future developments, principal risks and key performance indicators

red24 plc is incorporated in Scotland and domiciled in England. Its shares are listed on the AIM Market ("AIM") of the London Stock Exchange. The company acts as a holding company. The principal activities of its wholly-owned trading subsidiaries are the provision of security risk management and training services. These activities are expected to continue for the foreseeable future.

A fair review of the business, and its future prospects, is contained in the Chairman's Statement on pages 2 and 3. The Board considers the key performance indicators to be turnover, gross profit, profit before tax and available cash and the Board consider that the progress made in the second half of the year was satisfactory. The Board intend to adopt non-financial key performance indicators in the coming year.

The principal risks and uncertainties facing the group have changed markedly during the year. Although the timing of revenues can still be of concern, revenues have grown to a degree that monthly revenues almost always exceed monthly costs and both the trading divisions, and the group as a whole, are now trading profitably. Profitability has led to an improved cash flow and a much stronger balance sheet, thereby enabling the group to maintain reserves against the possibility of periods of reduced working capital. Internally the dependence on one or two key accounts for a significant proportion of our revenue remains a key risk. The Board are endeavouring to mitigate this risk by broadening the customer base. Externally the economic environment remains a challenging one as many governments struggle with debt constraints. This has implications for the relative value of currencies and not least sterling, which is our reporting currency. The past year has seen significant growth in our dollar revenues and costs, and we also have a significant rand cost base in South Africa. However, the

impact of currency movements on our earnings cannot be reliably forecast and remain an area of uncertainty. Other normal business risks include dependence on the continued availability of key personnel to ensure that our clients receive the level of service they are entitled to expect, and the ability of the group to continue to provide that level of service. The reputation of the group is critical to its continued success and it works hard to develop and protect its reputation by ensuring that it only associates itself with activities that are appropriate for a company in its sector.

### Results for the year

The financial result for the year ended 31 March 2010 and the comparative result for the year ended 31 March 2009 are set out on page 13. An interim dividend of 0.15p per share was paid on 15 January 2010, no final dividend is recommended (2009: £Nil).

### Directors

S A Richards, J E A Mocatta and M S H Worsley-Tonks held office throughout the year.

S A Richards retires by rotation at the forthcoming Annual General Meeting and, being eligible, offers himself for re-election.

### Biographies of Directors

**Simon Richards**, who is a Chartered Accountant, is the company's executive chairman. He also acts as the part time finance director as well as being the chairman of Sidebell Limited.

**Mal Worsley-Tonks** is a former Lieutenant Colonel in the British Army, having commanded a regular Parachute Battalion. He has over ten years' experience in the security industry. He is responsible for the red24 business segment worldwide.

**John Mocatta**, who is a Chartered Accountant, is the company's non-executive director. He is a specialist in corporate finance and company reorganisation and has previously been both an executive and a non-executive director of a number of public and private companies.

## DIRECTORS' REPORT

Year ended 31 March 2010

### Directors' interests

The interests of the directors in the company's share capital, including shares held by companies controlled by the directors, were as follows:

|                               | 31 March 2010              |  |   |
|-------------------------------|----------------------------|--|---|
|                               | Ordinary shares of 1p each | Ordinary shares options <sup>(iii)</sup> | Ordinary shares options <sup>(iv)</sup> |
| S A Richards <sup>(i)</sup>   | 580,000                    | 50,000                                   | –                                       |
| J E A Mocatta <sup>(ii)</sup> | 600,000                    | 50,000                                   | –                                       |
| M S H Worsley-Tonks           | 913,500                    | 175,000                                  | 500,000                                 |

|                               | 31 March 2009              |  |
|-------------------------------|----------------------------|--|
|                               | Ordinary shares of 1p each | Ordinary shares options <sup>(iii)</sup> |
| S A Richards <sup>(i)</sup>   | 580,000                    | 50,000                                   |
| J E A Mocatta <sup>(ii)</sup> | 600,000                    | 50,000                                   |
| M S H Worsley-Tonks           | 913,500                    | 175,000                                  |

- (i) S A Richards is also interested in the shares of Sidebell Limited, which held 12,659,250 ordinary shares of 1p each at 31 March 2010 (1 April 2009: 11,909,250 ordinary shares of 1p each). At 31 March 2009 Sidebell Limited held £190,000 of the 12% Loan Notes 2010 all of which were repaid during the year.

At 31 March 2010 Sidebell Limited also held warrants, associated with the Loan Notes, to subscribe for 1,150,000 (31 March 2009: 1,900,000) ordinary shares of 1p each at a subscription price of 5p per share at any time up to 30 September 2010. 750,000 warrants were exercised during the year.

S A Richards is also interested in the shares of Financial & General Securities Limited, which held 500,000 new ordinary shares of 1p each at 31 March 2010 (1 April 2009: 500,000).

- (ii) J E A Mocatta is also interested in 20,000 (1 April 2009: 20,000) ordinary shares held in trust for his grandchildren.
- (iii) On 16 April 2004 options over ordinary shares of 1p each at a price of 18.75p per share were granted to directors and certain employees. These options are exercisable between 16 April 2006 and 15 April 2014.
- (iv) On 2 March 2010 options over ordinary shares of 1p each at a price of 8p per share were granted to M S H Worsley-Tonks. These options are exercisable between 31 March 2013 and 31 March 2016.

## DIRECTORS' REPORT

Year ended 31 March 2010 continued

### Substantial shareholdings

The following shareholders had advised the company of holding an interest of 3 per cent or more in the issued ordinary share capital of the company at 12 May 2010:

|  | Number of ordinary shares of 1p each | Percentage of issued ordinary share capital |
|--|--------------------------------------|---|
| Sidebell Limited                       | 12,659,250                           | 26.80                                       |
| J M Briggs and EMIS                    | 8,128,568                            | 17.21                                       |
| R G C Whiting and Regent Trust Company | 3,744,922                            | 7.93  |
| TD Waterhouse Nominees Europe          | 1,841,804                            | 3.90  |
| Pershing Nominees Limited              | 1,822,983                            | 3.86  |
| Barclayshare Nominees                  | 1,481,524                            | 3.14  |

### Directors' and officers liability insurance

During the year the company has maintained insurance to indemnify the directors against potential claims arising from the performance of their duties.

### Related parties

The group considers that the Directors, their spouses and children and other companies or businesses of which the Directors, their spouses or children are either directors or principals, or both, are related parties. Full details of transactions with related parties are disclosed in note 24 to these accounts. The interests of related parties in the shares and loan notes issued by the company are set out above.

### Equal opportunities

The group endorses and supports the principles of equal employment opportunities. It is the policy of the group to provide equal employment opportunities to all qualified individuals, which ensures that all employment decisions are made, subject to legal obligations, on a non-discriminatory basis.

### Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that the

training, career development and promotion opportunities of disabled persons should, as far as possible, be identical with those of other employees.

### Product development

The group invests in its products and services on a continuous basis to ensure that its offerings remain at the forefront of those on offer in the market place.

### Suppliers' payment terms

It is the policy of the group to agree terms of payment with its suppliers when trading relationships are established, to ensure that the terms of payment are clear and to abide by the agreed terms, provided the suppliers meet their obligations. Payable days at 31 March 2010 were 44 (2009: 38) for the group and 39 (2009: 46) for the company.

### Financial instruments

Details of the financial instruments of the company and its subsidiary undertakings are contained in note 25.

### Employee participation

The group values the involvement of its employees and keeps them informed of matters affecting them as employees and on the various factors affecting the performance of the group.

### Statement as to disclosure of information to auditor

Each of the directors confirms that, so far as he is aware, there is no relevant audit information of which the company's auditor is unaware, and that he has taken all steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

### Auditor

A resolution proposing that Baker Tilly UK Audit LLP, Chartered Accountants, be appointed as auditor of the company will be put to the members at the Annual General Meeting. Baker Tilly UK Audit LLP have indicated its willingness to continue in office.

By order of the Board

**J E A Mocatta**  
Secretary  
10 June 2010

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group and the company. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 company and of the profit or loss of the group and the company for that period.

In preparing the group and company financial statements, the directors are required to:

- a. select suitable accounting policies and then apply them consistently;
- b. make judgements and accounting estimates that are reasonable and prudent;
- c. state whether they have been prepared in accordance with IFRSs adopted by the EU;
- d. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company 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 the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the red24 plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## CORPORATE GOVERNANCE STATEMENT

As a company listed on the AIM Market of the London Stock Exchange, the Directors' policy is, as far as is possible in relation to the group's size, to manage the affairs of the group in accordance with the Principles of Good Governance and Code of Best Practice issued by the Financial Reporting Council ("the Combined Code").

### Application of the principles of good governance

The names of the directors and their respective responsibilities are shown on page 5. The Board presently consists of two executive and one non-executive director. The full Board meets regularly and receives appropriate information from management in advance of its meetings. Certain functions are delegated to Board Committees.

The Remuneration Committee is chaired by the non-executive director and consists of that director and the Chairman. Its key role is to make recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost and to determine on behalf of the Board specific remuneration packages for the Executive Directors.

The Audit Committee consists of the Chairman and the non-executive director, both of whom are Chartered Accountants. The Committee, which is chaired by the non-executive director, meets with the independent auditor to consider the group's financial reporting in advance of its publication.

The Board considers that its structure is appropriate to its present stage of development and that the non-executive director is independent of the executives in both character and judgement.

### Internal control

The Board has overall responsibility for ensuring that the group maintains a system of internal control to provide it with reasonable assurance regarding the reliability of information used within the business and for publication and that assets are safeguarded. There are inherent limitations in any system of internal control and, accordingly, even the most effective system can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal control system that operated during the year may be summarised as follows:

- the Board is responsible for overall strategy and for approving budgets, forecasts and plans;
- clear lines of authority, responsibility and financial accountability within each business unit, ensuring an appropriate organisational structure for planning, executing, controlling and monitoring its business operations;
- consideration and review by the Board of monthly management accounts which compare actual results with budgets and prior years' results;
- regular reporting of legal and accounting developments to the Board; and
- comprehensive accounting policies and regular reviews of compliance with those policies.

The Audit Committee reviews the operation and effectiveness of this framework on a regular basis and, on behalf of the Board, has reviewed the half yearly report and the annual financial statements along with the nature and scope of the external audit.

The directors consider that there have been no weaknesses in internal financial control that have resulted in any material losses, contingencies or uncertainties requiring disclosure in the group's financial statements.

### Relations with shareholders

The Chairman makes himself available to major shareholders on request and periodically attends meetings with and presentations to shareholders. The Annual General Meeting is normally attended by all directors and shareholders are invited to ask questions during the meeting and to meet with directors after the formal proceedings have ended.

### Going concern

Having made enquiries, the directors have a reasonable expectation that the company and the group as a whole will have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

## CORPORATE GOVERNANCE STATEMENT

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### **Auditor independence**

The Audit Committee undertakes a formal assessment of the external auditor's independence each year which includes:

- a review of non-audit services provided to the group and related fees;
- receipt from the auditor of a written report detailing relationships with the company and any other parties that could affect independence or the perception of independence;
- a review of the auditor's own procedures for ensuring independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner; and
- obtaining written confirmation from the auditor that, in their professional judgement, they are independent.

An analysis of the fees payable to the external audit firm in respect of both audit and non-audit services during the year is set out in Note 4 to the financial statements.

On behalf of the board

**J E A Mocatta**  
Chairman  
Audit committee  
10 June 2010

## REMUNERATION REPORT

Year ended 31 March 2010

The Remuneration Committee comprises J E A Mocatta, as Chairman, and S A Richards.

### Policy on remuneration of Executive Directors

The purpose of the Remuneration Committee is to consider all aspects of executive directors' remuneration and determine the specific remuneration packages of each of the executive directors and, as appropriate, other senior executives, ensuring that the remuneration packages are competitive within the service industry and reflect both group and personal performance.

The current remuneration packages of the executive directors consist of basic salary, share options and a discretionary bonus.

### Directors' remuneration

The emoluments of the individual directors, which comprise salaries or fees and bonus were as follows:

|                     | 2010                |                             |            |            |
|---------------------|---------------------|-----------------------------|------------|------------|
|                     | Salary or fees<br>£ | Share based<br>payment<br>£ | Bonus<br>£ | Total<br>£ |
| S A Richards        | 70,000              | –                           | 7,000      | 77,000     |
| J E A Mocatta       | 33,000              | –                           | 3,300      | 36,300     |
| M S H Worsley-Tonks | 90,000              | 4,950                       | 18,000     | 112,950    |
|                     | 193,000             | 4,950                       | 28,300     | 226,250    |

|                     | 2009                |                             |            |            |
|---------------------|---------------------|-----------------------------|------------|------------|
|                     | Salary or fees<br>£ | Share based<br>payment<br>£ | Bonus<br>£ | Total<br>£ |
| S A Richards        | 60,000              | –                           | 6,000      | 66,000     |
| J E A Mocatta       | 28,500              | –                           | –          | 28,500     |
| M S H Worsley-Tonks | 84,000              | –                           | 16,800     | 100,800    |
|                     | 172,500             | –                           | 22,800     | 195,300    |

None of the directors received any benefits in kind during the year or during the previous year, nor were any pension contributions made on behalf of any director in either year.

## REMUNERATION REPORT

Year ended 31 March 2010

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### Directors' interests in shares and options

The interests of the directors holding office at 31 March 2010 in the company's share capital, including share options and also including shares held by companies controlled by the directors, are shown in the directors' report on page 5.

The directors continue to believe that the success of the group will depend to a high degree on the future performance of the management team. As a result the Board have encouraged managers and staff to take advantage of the group's share loan scheme and actually purchase shares. The Board were highly gratified that the scheme was used by seventeen members of staff, who made commitments of £35,100 during the year.

Directors are not entitled to utilise the share loan scheme and so the Board have awarded M S H Worsley-Tonks share options to subscribe to 500,000 ordinary shares at a price of 8p per share at any anytime between 31 March 2013 and 31 March 2016. This reflects his contribution both to the continued profitability of the company and to the development of new revenue streams.

### **J E A Mocatta**

Chairman  
Remuneration Committee  
10 June 2010

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF RED24 PLC

Year ended 31 March 2010

We have audited the group and parent company financial statements on pages 13 to 46. 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.

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 more fully explained in the Statement of Directors' Responsibilities on page 7, the directors are responsible for preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These 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/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

## Opinion

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 March 2010 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received by branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records; 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.

## Euan Banks (Senior Statutory Auditor)

for and on behalf of BAKER TILLY UK AUDIT LLP  
Chartered Accountants and Statutory Auditor  
2 Bloomsbury Street  
London WC1B 3ST

10 June 2010

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 March 2010

|   | Notes | 2010<br>£   | 2009<br>£   |
|---|-------|-------------|-------------|
| <b>Revenue</b>  | 3     | 4,287,744   | 3,320,725   |
| Cost of sales   |       | (926,148)   | (727,124)   |
| <b>Gross profit</b>   |       | 3,361,596   | 2,593,601   |
| Administrative expenses   |       | (2,704,818) | (2,009,876) |
| <b>Operating profit</b>   | 4     | 656,778     | 583,725     |
| Investment income   | 5     | 3,622       | 7,141       |
| Finance costs   | 6     | (32,106)    | (54,129)    |
| <b>Profit before tax</b>  | 3     | 628,294     | 536,737     |
| Tax credit/(charge)   | 10    | 9,075       | (121,088)   |
| <b>Profit for the year attributable to owners of the parent company</b> | 21    | 637,369     | 415,649     |
| <b>Basic profit per share (pence)</b>                                   | 11    | 1.43p       | 0.95p       |
| <b>Diluted profit per share (pence)</b>                                 | 11    | 1.40p       | 0.95p       |

The results above arose from continuing operations.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2010

|  | Notes | Group<br>2010  | Group<br>2009  | Company<br>2010 | Company<br>2009 |
|--|-------|----------------|----------------|-----------------|-----------------|
| Profit for the year  |       | 637,369        | 415,649        | 283,667         | 361,764         |
| Other comprehensive income for the year net of tax   |       |                |                |                 |                 |
| Currency translation differences   | 21    | 5,536          | (34,562)       | –               | –               |
| <b>Total comprehensive income for the year net of tax attributable to owners of the parent</b> |       | <b>642,905</b> | <b>381,087</b> | <b>283,667</b>  | <b>361,764</b>  |

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 10.

The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

| <b>Attributable to owners of the parent</b>    | Share capital<br>£ | Share premium<br>£ | Other reserves<br>£ | Translation reserve<br>£ | Revenue reserve<br>£ | Total<br>£ |
|--|--------------------|--------------------|---------------------|--------------------------|----------------------|------------|
| Balance at 1 April 2008                        | 3,356,108          | 748,303            | 47,240              | 96,680                   | (4,109,670)          | 138,661    |
| <b>Total comprehensive income for the year</b> | –                  | –                  | –                   | (34,562)                 | 415,649              | 381,087    |
| <b>Transactions with owners</b>                |                    |                    |                     |                          |                      |            |
| Issue of shares                                | 10,700             | 11,400             | –                   | –                        | –                    | 22,100     |
| Cancellation of shares                         | (2,922,397)        | (748,303)          | –                   | –                        | 3,670,700            | –          |
| Costs of share cancellation                    | –                  | (11,400)           | –                   | –                        | –                    | (11,400)   |
| Share based payments                           | –                  | –                  | (1,670)             | –                        | –                    | (1,670)    |
| <b>Total transactions with owners</b>          | (2,911,697)        | (748,303)          | (1,670)             | –                        | 3,670,700            | 9,030      |
| Balance at 31 March 2009                       | 444,411            | –                  | 45,570              | 62,118                   | (23,321)             | 528,778    |
| <b>Total comprehensive income for the year</b> | –                  | –                  | –                   | 5,536                    | 637,369              | 642,905    |
| <b>Transactions with owners</b>                |                    |                    |                     |                          |                      |            |
| Issue of shares                                | 28,000             | 114,600            | –                   | –                        | –                    | 142,600    |
| Share based payments                           | –                  | –                  | 4,950               | –                        | –                    | 4,950      |
| Transfer on exercise of warrants               | –                  | –                  | (6,140)             | –                        | 6,140                | –          |
| Dividends paid                                 | –                  | –                  | –                   | –                        | (66,662)             | (66,662)   |
| <b>Total transactions with owners</b>          | 28,000             | 114,600            | (1,190)             | –                        | (60,522)             | 80,888     |
| Balance at 31 March 2010                       | 472,411            | 114,600            | 44,380              | 67,654                   | 553,526              | 1,252,571  |

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2010

| <b>Attributable to owners of the parent</b> | Share capital<br>£ | Share premium<br>£ | Other reserves<br>£ | Revenue reserves<br>£ | Total<br>£ |
|---|--------------------|--------------------|---------------------|-----------------------|------------|
| Balance at 1 April 2008                     | 3,356,108          | 748,303            | 47,240              | (3,891,748)           | 259,903    |
| <b>Comprehensive income for the year</b>    | –                  | –                  | –                   | 361,764               | 361,764    |
| <b>Transactions with owners</b>             |                    |                    |                     |                       |            |
| Issue of shares                             | 10,700             | 11,400             | –                   | –                     | 22,100     |
| Cancellation of shares                      | (2,922,397)        | (748,303)          | –                   | 3,670,700             | –          |
| Costs of share cancellation                 | –                  | (11,400)           | –                   | –                     | (11,400)   |
| Share based payments                        | –                  | –                  | (1,670)             | –                     | (1,670)    |
| <b>Total transactions with owners</b>       | (2,911,697)        | (748,303)          | (1,670)             | 3,670,700             | 9,030      |
| Balance at 31 March 2009                    | 444,411            | –                  | 45,570              | 140,716               | 630,697    |
| <b>Comprehensive income for the year</b>    | –                  | –                  | –                   | 283,667               | 283,667    |
| <b>Transactions with owners</b>             |                    |                    |                     |                       |            |
| Issue of shares                             | 28,000             | 114,600            | –                   | –                     | 142,600    |
| Share based payments                        | –                  | –                  | 4,950               | –                     | 4,950      |
| Transfer on exercise of warrants            | –                  | –                  | (6,140)             | 6,140                 | –          |
| Dividends paid                              | –                  | –                  | –                   | (66,662)              | (66,662)   |
| <b>Total transactions with owners</b>       | 28,000             | 114,600            | (1,190)             | (60,522)              | 80,888     |
| Balance at 31 March 2010                    | 472,411            | 114,600            | 44,380              | 363,861               | 995,252    |

## BALANCE SHEETS

31 March 2010

|  | Notes | Group<br>2010 | Group<br>2009 | Company<br>2010 | Company<br>2009 |
|--|-------|---------------|---------------|-----------------|-----------------|
| <b>Assets</b>  |       |               |               |                 |                 |
| <b>Non-current assets</b>                                  |       |               |               |                 |                 |
| Intangible assets  | 12    | 273,190       | 278,925       | 10,910          | 16,379          |
| Investment in group companies                              | 13    | –             | –             | 147,877         | 127,125         |
| Property, plant & equipment                                | 14    | 73,214        | 61,095        | –               | –               |
| Deferred tax assets  | 15    | 163,244       | 138,144       | –               | –               |
| Trade and other receivables                                | 16    | 36,060        | 10,780        | 616,282         | 628,184         |
|  |       | 545,708       | 488,944       | 775,069         | 771,688         |
| <b>Current assets</b>                                      |       |               |               |                 |                 |
| Trade and other receivables                                | 16    | 945,913       | 415,037       | 173,958         | 172,433         |
| Cash and cash equivalents                                  | 17    | 967,623       | 626,180       | 131,017         | 71,388          |
|  |       | 1,913,536     | 1,041,217     | 304,975         | 243,821         |
| <b>Total assets</b>  |       | 2,459,244     | 1,530,161     | 1,080,044       | 1,015,509       |
| <b>Capital and reserves</b>                                |       |               |               |                 |                 |
| Called up share capital                                    | 20    | 472,411       | 444,411       | 472,411         | 444,411         |
| Share premium account                                      | 21    | 114,600       | –             | 114,600         | –               |
| Other reserves   | 21    | 44,380        | 45,570        | 44,380          | 45,570          |
| Translation reserve  | 21    | 67,654        | 62,118        | –               | –               |
| Retained earnings  | 21    | 553,526       | (23,321)      | 363,861         | 140,716         |
| <b>Equity attributable to equity holders of the parent</b> | 21    | 1,252,571     | 528,778       | 995,252         | 630,697         |
| <b>Non-current liabilities</b>                             |       |               |               |                 |                 |
| Borrowings   | 19    | 10,762        | 28,121        | –               | –               |
| <b>Current liabilities</b>                                 |       |               |               |                 |                 |
| Trade and other payables                                   | 18    | 1,176,935     | 703,039       | 84,792          | 134,812         |
| Borrowings   | 19    | 18,976        | 270,223       | –               | 250,000         |
|  |       | 1,195,911     | 973,262       | 84,792          | 384,812         |
| <b>Total equity and liabilities</b>                        |       | 2,459,244     | 1,530,161     | 1,080,044       | 1,015,509       |

The financial statements on pages 13 to 46 were approved and authorised for issue by the Board of Directors on 10 June 2010

Signed on behalf of the Board of Directors

S A Richards }  
J E A Mocatta } Directors

The accompanying notes are an integral part of these financial statements.

## CASH FLOW STATEMENTS

For the year ended 31 March 2010

|  | Notes | Group<br>2010 | Group<br>2009 | Company<br>2010 | Company<br>2009 |
|--|-------|---------------|---------------|-----------------|-----------------|
| <b>Net cash inflow from operating activities</b>           | 22    | 548,587       | 728,075       | 171,879         | 200,926         |
| <b>Investing activities</b>                                |       |               |               |                 |                 |
| Interest received  |       | 3,622         | 7,141         | 64              | 457             |
| Dividend received  |       | –             | –             | 100,000         | 50,000          |
| Investment in subsidiary                                   |       | –             | –             | (752)           | –               |
| Purchase of intangibles                                    |       | (2,131)       | (18,749)      | –               | (16,379)        |
| Purchase of property, plant & equipment                    |       | (37,206)      | (13,136)      | –               | –               |
| <b>Net cash (outflow)/inflow from investing activities</b> |       | (35,715)      | (24,744)      | 99,312          | 34,078          |
| <b>Financing activities</b>                                |       |               |               |                 |                 |
| Dividends paid   |       | (66,662)      | –             | (66,662)        | –               |
| Interest paid  |       | (47,106)      | (61,629)      | (37,500)        | (52,548)        |
| Repayment of finance lease obligations                     |       | (8,598)       | (3,401)       | –               | –               |
| Issue of ordinary share capital                            |       | 142,600       | 22,100        | 142,600         | 22,100          |
| Cost of share cancellation                                 |       | –             | (11,400)      | –               | (11,400)        |
| Repayment of bank loans                                    |       | (10,008)      | (10,008)      | –               | –               |
| Repayment of loan notes                                    |       | (250,000)     | (125,000)     | (250,000)       | (125,000)       |
| <b>Net cash outflow from financing activities</b>          |       | (239,774)     | (189,338)     | (211,562)       | (166,848)       |
| <b>Net increase in cash and cash equivalents</b>           | 22    | 273,098       | 513,993       | 59,629          | 68,156          |
| Cash and cash equivalents at the beginning of the year     |       | 626,180       | 82,380        | 71,388          | 3,232           |
| Effect of foreign exchange rates                           |       | 68,345        | 29,807        | –               | –               |
| Cash and cash equivalents at the end of the year           |       | 967,623       | 626,180       | 131,017         | 71,388          |

The accompanying notes are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 1 Accounting policies

#### (a) Basis of preparation

From 1 April 2007, the group and company have adopted International Financial Reporting Standards ("IFRS") and the International Financial Report Interpretations Committee ("IFRIC") interpretations as adopted by the European Union ("EU") in the preparation of its consolidated financial statements and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost basis.

The accounts are prepared on a going concern basis. In assessing whether the going concern assumption is appropriate, the directors have taken into account relevant available information about the future including profit and cash forecasts for the next two financial years and the assumptions on which they are based.

#### (b) Basis of consolidation

The consolidated financial statements include the financial statements of the company and all of the entities controlled by the company (its subsidiaries) made up to 31 March each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefit from its activities. The acquisition of subsidiaries is accounted for using the purchase method. The cost of an acquisition is measured as the cash paid and the fair value of other assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange of contracts, plus cost directly attributable to the acquisition.

The results of subsidiaries sold or acquired are included in the consolidated income statement up to, or from, the date control passes. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The company has not presented its own income statement as permitted by Section 408 of the Companies Act 2006. The profit for the year was £283,667 (2009: £361,764).

#### (c) Revenue recognition

Revenue represents the fair value of the consideration received or receivable in respect of services provided in the normal course of business, net of discounts, value added tax and other sales related taxes. Sales of services are recognised when the services have been provided, services invoiced in advance are treated as deferred income and income is accrued where services have been provided but not yet invoiced.

Interest income is accrued on a time-apportioned basis.

#### (d) Cost of sales, gross profit and operating profit

Cost of sales represent the fair value of costs directly incurred in the supply of goods sold and services provided. Costs are recognised at the time when the goods have been supplied or the services have been provided. Costs relating to services still to be provided are carried forward in other receivables to the extent it is considered probable they will be recovered.

Gross profit is defined as revenue recognised less cost of sales.

Operating profit is arrived at after deducting all administrative expenses from gross profit, including restructuring and impairment costs, but before investment income and finance costs.

#### (e) Borrowing costs

All borrowing costs are recognised in the income statement in the period in which they are incurred. Interest costs are accrued on a time basis by reference to the principal outstanding at the effective interest rate applicable.

#### (f) Taxation

The tax credit or expense represents the sum of the current tax expense and deferred tax.

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

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 1 Accounting policies continued

#### (f) Taxation continued

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Deferred income tax is charged or credited in the income statement, except where it relates to items charged or credited directly to equity, in which case the deferred income tax is also dealt with in equity.

Deferred tax is provided on temporary timing differences arising on investments in subsidiary companies, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

#### (g) Intangible assets

Goodwill, being the excess of the cost of acquisition over the fair value of net assets, including any intangible assets identified, acquired, is capitalised. Goodwill is not amortised but is tested at least annually for impairment and carried at cost less accumulated impairment provisions.

Goodwill is allocated to cash generating units for the purpose of impairment testing. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, then any goodwill is considered to be impaired. Impairment losses recognised for goodwill are not reversed in subsequent periods.

The recoverable amounts of the cash generating units are determined from value in use calculations. The group prepares cash flow forecasts from the most recent financial budgets approved by management. The cash flows are then discounted at an appropriate interest rate to determine value in use.

Intellectual properties, including computer software licences, are capitalised at cost and are amortised on a straight-line basis over their estimated useful economic lives of between one and three years.

#### (h) Property, plant & equipment and depreciation

Property, plant and equipment is valued at cost less accumulated depreciation and less provisions for impairment. Depreciation is provided at the following annual rates in order to write off each asset, on a straight-line basis, over its estimated useful life:

|                                  |   |
|----------------------------------|---|
| Fixtures, fittings and equipment | 16.67% to 50% per annum   |
| Motor vehicles                   | 20% per annum   |
| Leasehold premises               | the shorter of the lease term and the useful economic life of the asset |

The depreciation charge is time apportioned in the years of acquisition and disposal of assets.

#### (i) Product development

Product development is written off to the income statement as incurred unless the directors are satisfied as to the technical, commercial and financial viability of individual projects. In this situation, the expenditure is deferred and amortised over the period during which the company is expected to benefit.

#### (j) Foreign currency translation

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

In preparing the financial statements of the individual companies, transactions expressed in currencies other than the entity's functional currency (foreign currencies) are at rates of exchange approximating to those ruling at the date of the transaction.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 1 Accounting policies continued

#### (j) Foreign currency translation continued

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at rates ruling at the balance sheet date. Non monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in the profit or loss before income tax for the period.

In presenting the consolidated financial statements the assets and liabilities of the overseas subsidiary are translated at the rate ruling at the balance sheet date. The results of the overseas subsidiary have been translated at the average exchange rate ruling during the year. Differences arising on retranslation are added to or deducted from the group's translation reserve.

#### (k) Financial assets

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "Loans and receivables". These receivables are initially recognised at fair value and subsequently measured at their amortised cost using the effective interest rate method less any provision for impairment.

Financial assets are assessed for indications of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the asset have been impacted. For trade and other receivables the carrying amount is reduced by an allowance reflecting the impairment. When a trade receivable is uncollectible it is written off against the allowance, subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance are reflected in the income statement.

Cash and cash equivalents comprise cash in hand and on demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### (l) Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the contracted arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the transaction. At the date of issue the fair value of the liability is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instrument reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised in equity through other reserves and is not subsequently re-measured.

Other financial liabilities are initially measured at fair value, net of transaction costs, and subsequently at amortised cost using the effective interest method. Interest bearing bank loans and overdrafts together with obligations under finance leases are classified as "Borrowings". Trade payables and other payables and borrowings for the purposes of IAS 39 are classified as "other financial liabilities".

#### (m) Net debt

Net debt is defined as the excess of Borrowings over cash and cash equivalents.

#### (n) Investments

Non-current investments representing investments in subsidiary undertakings are valued at cost less any provision for impairment in the value of the investment.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 1 Accounting policies continued

#### (o) Share based payments

The group issues equity-settled share based payments to certain employees. Equity settled share based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight line basis over the vesting period, based on the group's estimate of options that will eventually vest. Fair value is measured by use of the Black Scholes model. The assumptions underlying the number of awards expected to vest are subsequently adjusted to reflect conditions prevailing at the balance sheet date. At the vesting date of an award, the cumulative expense is adjusted to take account of the awards that actually vest.

The group has issued warrants to subscribers of certain equity issues and these are measured at fair value at the date of grant in the same way as employee related share based payments.

#### (p) Leased assets and obligations

An asset is acquired when substantially all the risks and rewards are transferred and is capitalised as an asset under a finance lease with the corresponding liability to the finance company included in trade and other payables. Depreciation on assets held under finance leases is provided in accordance with the policy noted in (h) above. Finance lease payments are treated as consisting of capital and interest elements and the interest is charged to the income statement on a constant rate basis over the period of the agreement. Finance charges are charged directly to income. All other leases are operating leases.

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

#### (q) Adoption of new and revised standards

In the current financial year the group has adopted IAS 1 'Presentation of Financial Statements' which requires the presentation of changes in equity as a primary statement separate from the income statement and balance sheets.

The group has also adopted IFRS 8 'Operating Segments' in the current period; this Standard replaces IAS 14 'Segment Reporting' and requires segmental information reported to be based on that which management uses internally for evaluating performance of operating segments and requires increased disclosure relating to reportable segments. The same business segments have been adopted in applying both standards and so there is no impact on the reported results.

The various improvements to IFRS 2008, and the amendment to IFRS 7 'Improving disclosures about financial instruments', which were effective for this financial period, have had no material impact on the financial statements of the Group.

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not yet been applied in these financial statements, were in issue but not yet effective:

- IAS 24 (Revised 2009) 'Related Party Disclosures';
- IFRS 9 'Financial Instruments';
- IFRS 3 'Business combinations';
- Improvements to IFRSs 2009'.

There were no other Standards and Interpretations which were in issue but not effective at the date of authorisation of these financial statements that the directors anticipate will have a material impact on the financial statements of the Group.

### 2 Critical accounting judgements and key sources of estimation uncertainty

Estimates and judgements are evaluated on a continual basis and are based on historical experience together with expectations of future events believed to be reasonable at the time. In considering the possible impairment of intangible assets and in recognising deferred tax assets, estimates of future revenues are particularly critical. The directors have prepared forecasts of revenues and expenses covering the next two financial years to assist in the making of estimates and judgements.

In the process of applying the group's accounting policies, which are described in note 1, the directors have made the following judgements that have the most significant effect on the amounts recognised in the financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 2 Critical accounting judgements and key sources of estimation uncertainty continued

#### Revenue recognition

Much of the group's revenue comes from business that relates to the provision of services over a period of time. Invoiced revenue may cover more than one accounting period and these revenues are time apportioned to the accounting period to which they relate and the obligation for future service is shown in deferred income. Even after recognition as revenue on a time apportioned basis, there may be uncertainty as to the costs relating to these revenues for some time afterwards and there may remain an obligation for future service. An estimate of this obligation has been made by the directors, using their experience of similar contracts, and deducted from recognised revenue.

### 3 Revenue and segment analysis

For management purposes the group is currently organised into two divisions – red24 and Training. These divisions are the basis on which the group reports its management information to the group board. The red24 segment provides preventative and reactive security advice to customers across the globe, whilst the Training segment provides training in security management both in the UK and overseas.

The following tables provide details of revenue, profit, assets and liabilities and capital expenditure by business segment:

#### Business segment

|                               | 2010        |               |                   | 2009        |               |                   |
|-------------------------------|-------------|---------------|-------------------|-------------|---------------|-------------------|
|                               | red 24<br>£ | Training<br>£ | Consolidated<br>£ | red 24<br>£ | Training<br>£ | Consolidated<br>£ |
| Revenue                       | 3,586,348   | 701,396       | 4,287,744         | 2,412,052   | 908,673       | 3,320,725         |
| Segment result                | 788,720     | 28,473        | 817,193           | 806,670     | 41,811        | 848,481           |
| Unallocated head office costs |             |               | (160,415)         |             |               | (264,756)         |
| Operating profit              |             |               | 656,778           |             |               | 583,725           |
| Investment income             |             |               | 3,622             |             |               | 7,141             |
| Finance expense               |             |               | (32,106)          |             |               | (54,129)          |
| Profit before income taxation |             |               | 628,294           |             |               | 536,737           |
| Income tax                    |             |               | 9,075             |             |               | (121,088)         |
| Profit for the year           |             |               | 637,369           |             |               | 415,649           |

#### Business segment

#### Balance sheet

|                                   | 2010        |               |                   | 2009        |               |                   |
|-----------------------------------|-------------|---------------|-------------------|-------------|---------------|-------------------|
|                                   | red 24<br>£ | Training<br>£ | Consolidated<br>£ | red 24<br>£ | Training<br>£ | Consolidated<br>£ |
| Segment assets                    | 1,797,764   | 268,822       | 2,066,586         | 1,102,882   | 156,841       | 1,259,723         |
| Unallocated corporate assets      |             |               | 229,414           |             |               | 132,294           |
| Deferred tax assets               |             |               | 163,244           |             |               | 138,144           |
| Consolidated total assets         |             |               | 2,459,244         |             |               | 1,530,161         |
| Segment liabilities               | 835,669     | 256,474       | 1,092,143         | 438,048     | 130,179       | 568,227           |
| Unallocated corporate liabilities |             |               | 84,792            |             |               | 134,812           |
| Borrowings                        |             |               | 29,738            |             |               | 298,344           |
| Consolidated total liabilities    |             |               | 1,206,673         |             |               | 1,001,383         |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 3 Revenue and segment analysis continued

#### Business segment

#### Other segment items

|                               | 2010        |               |                   | 2009        |               |                   |
|-------------------------------|-------------|---------------|-------------------|-------------|---------------|-------------------|
|                               | red 24<br>£ | Training<br>£ | Consolidated<br>£ | red 24<br>£ | Training<br>£ | Consolidated<br>£ |
| Capital expenditure           |             |               |                   |             |               |                   |
| – intangible assets           | 2,131       | –             | 2,131             | 18,749      | –             | 18,749            |
| – property, plant & equipment | 34,265      | 2,941         | 37,206            | 12,601      | 535           | 13,136            |
| Depreciation                  | 33,300      | 2,454         | 35,754            | 28,200      | 2,811         | 31,011            |
| Amortisation of intangibles   | 6,897       | 1,670         | 8,567             | 1,039       | 1,670         | 2,709             |

No single customer accounts for more than 10% of the revenue of the Training segment. For the red 24 segment the two key distributors each account for more than 10% of group revenue; one accounts for 31.0% (2009: 38.4%) and the other accounts for 21.1% (2009: 14.7%).

The group's operations are located in the United Kingdom and in the Republic of South Africa. The following table provides an analysis of the group's sales by location of customer, irrespective of the origin of the services, and a geographical analysis of the location of segment assets and additions to property, plant and equipment and intangible assets.

#### Geographic segment

|                          | Revenue<br>2010<br>£ | Revenue<br>2009<br>£ | Segment<br>assets<br>2010<br>£ | Segment<br>assets<br>2009<br>£ | Capital<br>expenditure<br>2010<br>£ | Capital<br>expenditure<br>2009<br>£ |
|--------------------------|----------------------|----------------------|--------------------------------|--------------------------------|-------------------------------------|-------------------------------------|
| United Kingdom           | 2,189,551            | 2,365,116            | 1,630,512                      | 794,171                        | 29,120                              | 23,506                              |
| South Africa             | 33,047               | 31,362               | 599,318                        | 603,696                        | 10,217                              | 8,379                               |
| Rest of Europe           | 111,954              | 223,657              | –                              | –                              | –                                   | –                                   |
| United States of America | 1,666,297            | 524,123              | –                              | –                              | –                                   | –                                   |
| Rest of the World        | 286,895              | 176,467              | –                              | –                              | –                                   | –                                   |
|                          | 4,287,744            | 3,320,725            | 2,229,830                      | 1,397,867                      | 39,337                              | 31,885                              |
| Shared corporate assets  | –                    | –                    | 229,414                        | 132,294                        | –                                   | –                                   |
|                          | 4,287,744            | 3,320,725            | 2,459,244                      | 1,530,161                      | 39,337                              | 31,885                              |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 4 Operating profit

The operating profit is stated after charging/(crediting):

|  | 2010<br>£ | 2009<br>£ |
|--|-----------|-----------|
| Amortisation of intangible assets  | 8,567     | 2,709     |
| Depreciation of property, plant and equipment                                      | 35,754    | 31,011    |
| Operating lease rentals – land and buildings                                       | 116,829   | 85,792    |
| – equipment  | 1,369     | 1,103     |
| Loss/(gain) on foreign exchange transactions                                       | 21,430    | (97,374)  |
| Share based payments   | 4,950     | (1,670)   |
| Fees payable to the auditor for the audit of the company and group annual accounts | 14,000    | 12,500    |
| Fees payable to auditor and their associates for other services:                   |           |           |
| Audit of the company's subsidiaries pursuant to legislation                        | 15,500    | 15,500    |
| Other services pursuant to legislation   | 6,103     | 2,600     |
| Fees payable to auditor's associate for the audit of the South African subsidiary  | 11,654    | 5,026     |

Auditor's remuneration includes £31,400 (2009: £28,600) in respect of the group auditor, of which £29,500 (2009: £28,000) relates to audit services and £1,900 (2009: £2,600) to non audit services. Other services comprise £700 (2009: £Nil) for the advice in relation to incorporation of a United States subsidiary and £1,200 (2009: £600) relating to a review of the group's half year report.

### 5 Investment income

|                                    | 2010<br>£ | 2009<br>£ |
|------------------------------------|-----------|-----------|
| Bank and other interest receivable | 3,622     | 7,141     |

### 6 Finance costs

|                                       | 2010<br>£ | 2009<br>£ |
|---------------------------------------|-----------|-----------|
| Interest on bank loans and overdrafts | 1,420     | 3,789     |
| Loan note interest                    | 22,500    | 45,000    |
| Interest element of finance leases    | 3,864     | 5,340     |
| Other interest payable                | 4,322     | –         |
|                                       | 32,106    | 54,129    |

### 7 Employees

|   | 2010<br>Number | 2009<br>Number |
|---|----------------|----------------|
| (a) Average monthly number of employees of the group, including executive directors, during the year: |                |                |
| Consultants and sales   | 10             | 10             |
| Office and management   | 55             | 60             |
|   | 65             | 70             |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 7 Employees continued

|  | 2010<br>£ | 2009<br>£ |
|--|-----------|-----------|
| (b) Staff costs including executive directors: |           |           |
| Wages and salaries                             | 1,507,462 | 1,192,744 |
| Social security costs                          | 106,382   | 89,278    |
| Share based payments                           | 4,950     | (1,670)   |
|  | 1,618,794 | 1,280,352 |

Employee costs are included in administrative expenses in the consolidated income statement.

### 8 Share based payments

The company has issued share options to certain directors and employees. The options cannot be exercised in the first three years following their grant and, under normal circumstances, the options lapse if an employee leaves the group.

On 16 April 2004, the company granted 1,595,000 options to subscribe for ordinary shares of 1p each under the company's new general share option scheme, exercisable at 18.75p per share between 16 April 2006 and 15 April 2014 and are not subject to any performance conditions.

On 2 March 2010, the company granted 500,000 options to subscribe for ordinary shares of 1p each under the company's executive share option scheme, exercisable at 8p per share between 31 March 2013 and 31 March 2016 and are not subject to any performance conditions.

The following movements in the numbers of share options outstanding took place in the year.

|                         | 2004<br>Series | 2010<br>Series | Total     |
|-------------------------|----------------|----------------|-----------|
| At 1 April 2009         | 522,500        | –              | 522,500   |
| Granted during the year | –              | 500,000        | 500,000   |
| At 31 March 2010        | 522,500        | 500,000        | 1,022,500 |

The 2004 Series has no profit trigger. At 31 March 2010 522,500 outstanding options are exercisable (2009: 522,500) at a weighted average exercise price of 18.75p.

The following movement took place in the previous year:

|                        | 2004<br>Series | Total    |
|------------------------|----------------|----------|
| At 1 April 2008        | 547,500        | 547,500  |
| Lapsed during the year | (25,000)       | (25,000) |
| At 31 March 2009       | 522,500        | 522,500  |

Those share options that lapsed did so as the grantees were no longer in the group's employ.

The total charge recognised in administration expenses in the income statement from share based transactions, all equity-settled, amounted to £4,950 (2008: credit of £1,670). This reflects the charge relating to options granted in the year. In 2009 the credit relates to options of the 2004 series that have lapsed due to the departure of the holder.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 8 Share based payments continued

Fair value is determined by use of the Black Scholes model using the following assumptions:

|                                    | 2010<br>Series | 2004<br>Series |
|------------------------------------|----------------|----------------|
| Grant date                         | 2 March 2010   | 16 April 2004  |
| Exercise price                     | 8p             | 18.75p         |
| Shares issued under option         | 500,000        | 1,320,000      |
| Weighted average share price       | 8p             | 15p            |
| Vesting period                     | 3 years        | 2 years        |
| Expected volatility                | 51%            | 83%            |
| Contractual expiry date            | 31 March 2016  | 15 April 2014  |
| Option life taken as expected life | 3 years        | 5 years        |
| Risk free rate                     | 3.5%           | 4.5%           |
| Expected dividend yield            | 2.0%           | 0%             |
| Probability of option vesting      | 90%            | 10%            |
| Fair value per option              | 3p             | 10p            |

The expected volatility of all equity compensation benefits is based on the expected volatility of the underlying share price over the term of the option. This has been calculated using historical share price data.

### 9 Directors' emoluments

The total emoluments of the directors, who are considered to be the key management personnel, were as follows:

|                            | 2010<br>£ | 2009<br>£ |
|----------------------------|-----------|-----------|
| Salaries, fees and bonuses | 221,300   | 195,300   |
| Social security costs      | 22,218    | 19,959    |
| Share based payments       | 4,950     | –         |
|                            | 248,468   | 215,259   |

Bonus payments were made to the executive directors during the year, and for the previous year, based on a percentage of annual salary, as shown in the remuneration report. The directors received no benefits in kind during the year or during the previous year, nor were any pension contributions made on behalf of any director in either year. Details of the highest paid director are shown in the remuneration report and details of the directors' interests in share options are given in the directors' report.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 10 Taxation

#### (a) Analysis of income tax (credit)/charge for the year

|                | 2010<br>£ | 2009<br>£ |
|----------------|-----------|-----------|
| Current tax    |           |           |
| United Kingdom | 7,907     | 9,080     |
| South Africa   | 3,212     | –         |
| Deferred tax:  |           |           |
| United Kingdom | (56,390)  | (22,460)  |
| South Africa   | 36,196    | 134,468   |
|                | (9,075)   | 121,088   |

#### (b) Factors affecting the income tax (credit)/charge for the year

The charge for the year can be reconciled to the profit per the income statement as follows:

|   | 2010<br>£ | 2009<br>£ |
|---|-----------|-----------|
| Profit before taxation  | 628,294   | 536,737   |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%) | 175,922   | 150,284   |
| Effects of:   |           |           |
| Expenses not deductible for tax purposes  | 13,842    | 14,353    |
| Temporary differences   | (404)     | 2,000     |
| Difference between interest paid and payable  | (4,200)   | (2,100)   |
| Tax losses not utilised in the year   | 21,452    | 92,585    |
| Utilisation of tax losses brought forward   | (206,612) | (257,124) |
| Change in recognised value of tax losses  | (9,075)   | 121,088   |
| Income tax (credit)/charge  | (9,075)   | 121,088   |

#### (c) Factors affecting tax charge for future years

The company has capital losses for tax purposes at 31 March 2010 of £605,994 (2009: £605,994) available to carry forward against future capital gains and excess management expenses of £1,382,325 (2009: £1,320,797), subject to acceptance by H M Revenue & Customs. The trading subsidiaries have losses for corporation tax purposes at 31 March 2010 available to carry forward against profits from the same trade of £1,631,646 (2009: £2,293,065) subject to acceptance by H M Revenue & Customs and the South African tax authorities.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 10 Taxation continued

#### (c) Factors affecting tax charge for future years continued

The group and the company have deferred tax assets not included in the financial statements as recovery is not sufficiently certain, calculated at a corporation tax rate of 28% (2009: 28%), as follows:

|   | Group     |           | Company   |           |
|---|-----------|-----------|-----------|-----------|
|   | 2010<br>£ | 2009<br>£ | 2010<br>£ | 2009<br>£ |
| Tax losses carried forward:             |           |           |           |           |
| Capital losses                          | 169,678   | 169,678   | 169,678   | 169,678   |
| Management expenses                     | 387,051   | 369,823   | 387,051   | 369,823   |
| Trading losses                          | 301,454   | 503,914   | –         | –         |
| Non-current asset temporary differences | 4,766     | 7,181     | –         | –         |
| Short term temporary differences        | –         | (2,100)   | –         | (2,100)   |
|   | 862,949   | 1,048,496 | 556,729   | 537,401   |

The deferred tax asset in respect of trading losses is recoverable against future profits from the same trade.

#### (d) Tax effects of other comprehensive income

|   | 2010            |          |                | 2009            |          |                |
|---|-----------------|----------|----------------|-----------------|----------|----------------|
|   | Before tax<br>£ | Tax<br>£ | After tax<br>£ | Before tax<br>£ | Tax<br>£ | After tax<br>£ |
| Exchange differences on translation of foreign operations | 5,536           | –        | 5,536          | (34,562)        | –        | (34,562)       |

### 11 Profit per share

|  | 2010       | 2009       |
|--|------------|------------|
| Attributable profit (£)  | 637,369    | 415,649    |
| Weighted average number of ordinary shares in issue for the purposes of basic profit per share   | 44,485,409 | 43,779,687 |
| Effect of dilutive potential ordinary shares on exercise of warrants                             | 947,535    | –          |
| Weighted average number of ordinary shares in issue for the purposes of diluted profit per share | 45,432,944 | 43,779,687 |
| Basic profit per share (pence)   | 1.43p      | 0.95p      |
| Diluted profit per share (pence)   | 1.40p      | 0.95p      |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 12 Intangible assets

#### Group

|                                    | Intellectual<br>Property<br>£ | Goodwill<br>£ | Total<br>£ |
|------------------------------------|-------------------------------|---------------|------------|
| <b>Cost</b>                        |                               |               |            |
| At 1 April 2008                    | 9,842                         | 256,020       | 265,862    |
| Foreign currency adjustment        | 1,021                         | –             | 1,021      |
| Additions                          | 18,749                        | –             | 18,749     |
| At 1 April 2009                    | 29,612                        | 256,020       | 285,632    |
| Foreign currency adjustment        | 1,810                         | –             | 1,810      |
| Additions                          | 2,131                         | –             | 2,131      |
| At 31 March 2010                   | 33,553                        | 256,020       | 289,573    |
| <b>Amortisation and impairment</b> |                               |               |            |
| At 1 April 2008                    | 3,301                         | –             | 3,301      |
| Foreign currency adjustment        | 697                           | –             | 697        |
| Amortisation charge for the year   | 2,709                         | –             | 2,709      |
| At 1 April 2009                    | 6,707                         | –             | 6,707      |
| Foreign currency adjustment        | 1,109                         | –             | 1,109      |
| Amortisation charge for the year   | 8,567                         | –             | 8,567      |
| At 31 March 2010                   | 16,383                        | –             | 16,383     |
| <b>Carrying amount</b>             |                               |               |            |
| At 31 March 2010                   | 17,170                        | 256,020       | 273,190    |
| At 31 March 2009                   | 22,905                        | 256,020       | 278,925    |
| At 1 April 2008                    | 6,541                         | 256,020       | 262,561    |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 12 Intangible assets continued

#### Company

|                                    | Intellectual<br>Property<br>£ | Total<br>£ |
|------------------------------------|-------------------------------|------------|
| <b>Cost</b>                        |                               |            |
| At 1 April 2008                    | –                             | –          |
| Additions                          | 16,379                        | 16,379     |
| At 1 April 2009                    | 16,379                        | 16,379     |
| At 31 March 2009                   | 16,379                        | 16,379     |
| <b>Amortisation and impairment</b> |                               |            |
| At 1 April 2009                    | –                             | –          |
| Amortisation charge for the year   | 5,469                         | 5,469      |
| At 31 March 2010                   | 5,469                         | 5,469      |
| <b>Carrying amount</b>             |                               |            |
| At 31 March 2010                   | 10,910                        | 10,910     |
| At 31 March 2009                   | 16,379                        | 16,379     |
| At 1 April 2008                    | –                             | –          |

The goodwill acquired in a business combination is allocated, at acquisition, to the cash generating segments that are expected to benefit from that business combination. At the date of transition to IFRS the carrying amount of goodwill had been allocated as red24 segment £136,020 and training segment £120,000.

The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. Charges for amortisation and impairment of goodwill and intellectual property are included within administrative expenses.

The recoverable amounts of the cash generating units are determined from value in use calculations. The group prepares cash flow forecasts from the most recent financial budgets approved by management. The cash flows are then discounted at an appropriate interest rate to determine value in use.

The forecast cash flows for the next two years, taking forecast revenues, based upon historical experience, and anticipated expenditure are then discounted at a rate of ten percent per annum to arrive at a recoverable amount for each cash generating unit. This shows that each cash generating unit has a recoverable amount in excess of the carrying value of goodwill and that no charge for impairment is necessary.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 13 Investment in group companies

|                                      | Company<br>£ |
|--------------------------------------|--------------|
| Investments in subsidiary companies: |              |
| Cost                                 |              |
| At 1 April 2008 and 31 March 2009    | 1,646,029    |
| Additions                            | 752          |
| At 31 March 2010                     | 1,646,781    |
| Impairment provisions                |              |
| At 1 April 2008 and 31 March 2009    | 1,518,904    |
| Reversal of impairment charge        | (20,000)     |
| At 31 March 2010                     | 1,498,904    |
| Net book amount                      |              |
| At 31 March 2010                     | 147,877      |
| At 31 March 2009                     | 127,125      |
| At 1 April 2008                      | 127,125      |

The subsidiary companies at 31 March 2010 and their activities during the year were:

| Held directly:                     | Percentage of ordinary<br>share capital held | Activity                             |
|------------------------------------|--|--------------------------------------|
| red24 Operations Limited           | 100%   | Security risk management services    |
| red24 CRM (Pty) Limited            | 100%   | Security risk management services    |
| red24 Sales Limited                | 100%   | Security risk management services    |
| red24 Inc                          | 100%   | Dormant                              |
| ARC Training International Limited | 100%   | Training in security risk management |

All of the subsidiary companies are incorporated in Great Britain and registered in England and Wales, with the exception of red24 CRM (Pty) Limited, which is incorporated and registered in South Africa and red24 Inc which is incorporated in the United States of America. The financial statements of all the above subsidiaries are included in these financial statements

The company's investment in red24 CRM (Pty) Limited includes R1,300,000 5% convertible redeemable cumulative preference shares of R1 each. The company has waived its right to the dividend due on these shares up to 31 March 2010. For the year to 31 March 2010 this would have amounted to R65,000 (£5,242).

The company's loan to red24 CRM (Pty) Limited is subordinated in favour of that company's creditors until such time as the net assets of that subsidiary exceed its net liabilities.

Each year the company reviews the carrying value of the investment in each subsidiary against the amount estimated to be recoverable from that subsidiary, if recovery is not reasonably foreseeable then the investment is considered impaired and a charge made.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 14 Property, plant & equipment Group

|                             | Leasehold premises<br>£ | Motor vehicles<br>£ | Fixtures, fittings and equipment<br>£ | Total<br>£ |
|-----------------------------|-------------------------|---------------------|---------------------------------------|------------|
| <b>Cost</b>                 |                         |                     |                                       |            |
| At 1 April 2008             | –                       | 3,670               | 174,557                               | 178,227    |
| Foreign currency adjustment | –                       | 776                 | 22,899                                | 23,675     |
| Additions                   | –                       | –                   | 13,136                                | 13,136     |
| At 1 April 2009             | –                       | 4,446               | 210,592                               | 215,038    |
| Foreign currency adjustment | –                       | 978                 | 30,194                                | 31,172     |
| Additions                   | 12,633                  | –                   | 24,573                                | 37,206     |
| Disposals                   | –                       | –                   | (39,197)                              | (39,197)   |
| At 31 March 2010            | 12,633                  | 5,424               | 226,162                               | 244,219    |
| <b>Depreciation</b>         |                         |                     |                                       |            |
| At 1 April 2008             | –                       | 705                 | 110,231                               | 110,936    |
| Foreign currency adjustment | –                       | 149                 | 11,847                                | 11,996     |
| Charge for the year         | –                       | 445                 | 30,566                                | 31,011     |
| At 1 April 2009             | –                       | 1,299               | 152,644                               | 153,943    |
| Foreign currency adjustment | –                       | 286                 | 20,088                                | 20,374     |
| Charge for the year         | 842                     | 542                 | 34,370                                | 35,754     |
| Disposals                   | –                       | –                   | (39,066)                              | (39,066)   |
| At 31 March 2010            | 842                     | 2,127               | 168,036                               | 171,005    |
| <b>Carrying amount</b>      |                         |                     |                                       |            |
| At 31 March 2010            | 11,791                  | 3,297               | 58,126                                | 73,214     |
| At 31 March 2009            | –                       | 3,147               | 57,948                                | 61,095     |
| At 1 April 2008             | –                       | 2,965               | 64,326                                | 67,291     |

The depreciation has been charged to administrative expenses.

At 31 March 2010 the group had no capital commitments (2009: £Nil).

At 31 March 2010 the group held fixtures, fittings and equipment under finance leases, secured on those assets, as follows:

|                                  | 2010<br>£ | 2009<br>£ |
|----------------------------------|-----------|-----------|
| Cost                             | 47,870    | 39,239    |
| Accumulated depreciation         | (42,285)  | (26,813)  |
| Net book amount                  | 5,585     | 12,426    |
| Depreciation charged in the year | 8,542     | 7,134     |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 15 Deferred tax assets

The deferred tax assets, realisable after more than one year, are included at current tax rates and represent the following:

|                                  | Total<br>£ | Group<br>Tax losses<br>carried<br>forward<br>£ | Temporary<br>differences<br>£ |
|----------------------------------|------------|--|-------------------------------|
| At 1 April 2008                  | 230,445    | 229,029  | 1,416                         |
| Foreign currency adjustment      | 19,707     | 18,536   | 1,171                         |
| Income statement charge/(credit) | (112,008)  | (120,714)                                      | 8,706                         |
| At 1 April 2009                  | 138,144    | 126,851  | 11,293                        |
| Foreign currency adjustment      | 4,905      | 2,730  | 2,175                         |
| Income statement credit/(charge) | 20,195     | 22,769   | (2,574)                       |
| At 31 March 2010                 | 163,244    | 152,350  | 10,894                        |

The deferred tax assets recognised in respect of tax losses carried forward represent £152,350 (2009: £95,960) relating to UK subsidiary companies and £Nil (2009: £30,891) relating to the South African subsidiary. Tax losses, which may be carried forward indefinitely, are recoverable against future profits from the same trade and in the country in which they were incurred.

### 16 Trade and other receivables

|   | Group     |           | Company   |           |
|---|-----------|-----------|-----------|-----------|
|   | 2010<br>£ | 2009<br>£ | 2010<br>£ | 2009<br>£ |
| Amounts falling due within one year: 2010     |           |           |           |           |
| Trade receivables (i)                         | 890,882   | 378,841   | –         | –         |
| Provisions for impairment (ii)                | (68,706)  | (23,528)  | –         | –         |
|   | 822,176   | 355,313   | –         | –         |
| Due from subsidiary undertakings (iii)        | –         | –         | 128,000   | 138,686   |
| Other receivables                             | 51,630    | 34,637    | 16,818    | 8,832     |
| Prepayments and accrued income                | 72,107    | 25,087    | 29,140    | 24,915    |
|   | 945,913   | 415,037   | 173,958   | 172,433   |
| Amounts falling due after more than one year: |           |           |           |           |
| Due from subsidiary undertakings (iii)        | –         | –         | 1,160,017 | 1,423,716 |
| Provisions for impairment (ii)                | –         | –         | (579,795) | (806,312) |
|   | –         | –         | 580,222   | 617,404   |
| Other receivables                             | 36,060    | 10,780    | 36,060    | 10,780    |
|   | 36,060    | 10,780    | 616,282   | 628,184   |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 16 Trade and other receivables continued

(i) The average credit period on sales of services is 76 days (2009: 42 days). Trade receivables over 120 days at the balance sheet date, that have not been received within 60 days of the balance sheet date are provided for in full. Other trade receivables over 60 days at the balance sheet date are provided for on estimated irrecoverable amounts. The carrying value of trade and other receivables is considered to be the same as their fair value.

Included in trade receivables are receivables with a carrying amount of £246,674 (2009: £42,162) that are designated in foreign currencies, of which £222,739 (2009: £41,406) are designated in US dollars and £23,935 (2009: £756) in other currencies.

Included in the group's trade receivables are debtors with a carrying amount of £153,511 (2009: £89,406) which are overdue at the balance sheet date for which the group has not provided as there has not been a significant change in credit quality and the group believes that these amounts are still recoverable. The group does not hold any collateral over these balances. The ageing of amounts past due but not impaired is as follows:

|             | 2010<br>£ | 2009<br>£ |
|-------------|-----------|-----------|
| 60-90 days  | 65,108    | 38,851    |
| 90-120 days | 47,667    | 5,713     |
| 120+ days   | 40,736    | 44,842    |
|             | 153,511   | 89,406    |

The red24 product is sold through key distributors, which does lead to a significant concentration of credit risk. These distributors are major global concerns and this limits the risk. At the balance sheet date £286,904 (2009: £158,202) was due to the group from key distributors and is included within trade and other receivables.

(ii) Movement in the allowances against trade and other receivables:

|  | Group<br>Trade<br>receivables |           | Company<br>Due from<br>subsidiary<br>undertakings |           |
|--|-------------------------------|-----------|---|-----------|
|  | 2010<br>£                     | 2009<br>£ | 2010<br>£   | 2009<br>£ |
| Balance at 1 April                       | 23,528                        | 4,643     | 806,312   | 1,316,384 |
| Increase in provision                    | 45,178                        | 18,885    | –   | –         |
| Release of provision to income statement | –                             | –         | (226,517)   | (510,072) |
| Balance at 31 March                      | 68,706                        | 23,528    | 579,795   | 806,312   |

(iii) The amounts due from subsidiary companies are unsecured and interest to 31 March 2010 has been waived. There are no fixed terms for repayment.

### 17 Cash and cash equivalents

|                           | Group     |           | Company   |           |
|---------------------------|-----------|-----------|-----------|-----------|
|                           | 2010<br>£ | 2009<br>£ | 2010<br>£ | 2009<br>£ |
| Cash and cash equivalents | 967,623   | 626,180   | 131,017   | 71,388    |

Cash and cash equivalents comprise cash held in short-term bank deposits with a maturity of three months or less. The carrying amount of these assets approximated to their fair value. Repatriation of funds to the UK is subject to South African exchange control legislation, at 31 March 2010 £379,879 (2009: £314,556) was held with banks in South Africa.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 18 Trade and other payables due within one year

|                                    | Group     |           | Company   |           |
|------------------------------------|-----------|-----------|-----------|-----------|
|                                    | 2010<br>£ | 2009<br>£ | 2010<br>£ | 2009<br>£ |
| Trade payables                     | 245,650   | 153,113   | 29,500    | 66,511    |
| Other taxation and social security | 57,172    | 60,928    | 15,129    | 13,765    |
| Accruals and deferred income       | 874,113   | 488,998   | 40,163    | 54,536    |
|                                    | 1,176,935 | 703,039   | 84,792    | 134,812   |

The average credit period taken on purchases of services is 44 days (2009: 38 days). The carrying value of trade and other payables is considered to be the same as their fair value.

Included in group trade payables are payables with a carrying amount of £92,251 (2009: £7,850) that are designated in foreign currencies, of which £74,536 (2009: £Nil) are designated in US dollars and £17,715 (2009: £7,850) in other currencies.

### 19 Borrowings

#### Due within one year

|  | Group     |           | Company   |           |
|--|-----------|-----------|-----------|-----------|
|  | 2010<br>£ | 2009<br>£ | 2010<br>£ | 2009<br>£ |
| Bank loan (i)                          | 10,008    | 10,008    | –         | –         |
| Loan notes (ii)                        | –         | 250,000   | –         | 250,000   |
| Obligations under finance leases (iii) | 8,968     | 10,215    | –         | –         |
|  | 18,976    | 270,223   | –         | 250,000   |

#### Due after more than one year

|  | Group     |           | Company   |           |
|--|-----------|-----------|-----------|-----------|
|  | 2010<br>£ | 2009<br>£ | 2010<br>£ | 2009<br>£ |
| Bank loan (i)                          | 10,762    | 20,770    | –         | –         |
| Obligations under finance leases (iii) | –         | 7,351     | –         | –         |
|  | 10,762    | 28,121    | –         | –         |

(i) Secured by a fixed and floating charge over the assets and undertaking of the company and those of a subsidiary company, red24 Sales Limited. The loan is being repaid at the rate of £834 per calendar month. The interest charged on the loan is 2.75% per annum over the base rate of HSBC Bank plc.

(ii) Unsecured, repayable on or before 30 September 2010, and bearing interest at 12%. The loan notes were repaid early, £125,000 on 30 September 2009 and £125,000 on 31 March 2010.

(iii) Secured on the related property, plant and equipment as shown in note 14.

The fair value of group borrowings is considered to be the same as the carrying value.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 19 Borrowings continued

The group entered into a finance lease in relation to its telephone system in South Africa, the lease expires in late 2010; minimum future payments under the finance leases are as follows:

#### Group

|   | Minimum future payments |           | Present value of payments |           |
|---|-------------------------|-----------|---------------------------|-----------|
|   | 2010<br>£               | 2009<br>£ | 2010<br>£                 | 2009<br>£ |
| Payable within one year                 | 9,796                   | 13,764    | 8,968                     | 10,215    |
| Payable between one and two years       | –                       | 8,030     | –                         | 7,351     |
|   | 9,796                   | 21,794    | 8,968                     | 17,566    |
| Future finance charges                  | (828)                   | (4,228)   | –                         | –         |
| Present value of minimum lease payments | 8,968                   | 17,566    | 8,968                     | 17,566    |

### 20 Share capital

|                              | Ordinary<br>Number | Deferred<br>Number | Total<br>Number |
|------------------------------|--------------------|--------------------|-----------------|
| Authorised                   |                    |                    |                 |
| Number of shares             |                    |                    |                 |
| Ordinary shares of 1p each   |                    |                    |                 |
| Deferred shares of 0.9p each |                    |                    |                 |
| At 1 April 2008              | 50,000,000         | 500,000,000        | 550,000,000     |
| Shares authorised            | 25,000,000         | –                  | 25,000,000      |
| Shares cancelled (see below) | –                  | (500,000,000)      | (500,000,000)   |
| At 31 March 2009 & 2010      | 75,000,000         | –                  | 75,000,000      |

  

|                              | Ordinary<br>£ | Deferred<br>£ | Total<br>£  |
|------------------------------|---------------|---------------|-------------|
| Authorised                   |               |               |             |
| Ordinary shares of 1p each   |               |               |             |
| Deferred shares of 0.9p each |               |               |             |
| At 1 April 2008              | 500,000       | 4,500,000     | 5,000,000   |
| Shares authorised            | 250,000       | –             | 250,000     |
| Shares cancelled (see below) | –             | (4,500,000)   | (4,500,000) |
| At 31 March 2009 & 2010      | 750,000       | –             | 750,000     |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 20 Share capital continued

|                              | Ordinary<br>Number | Deferred<br>Number | Total<br>Number |
|------------------------------|--------------------|--------------------|-----------------|
| Issued and fully paid        |                    |                    |                 |
| Number of shares             |                    |                    |                 |
| At 1 April 2008              | 43,371,083         | 324,710,836        | 368,081,919     |
| Issued during the year       | 1,070,000          | –                  | 1,070,000       |
| Shares cancelled (see below) | –                  | (324,710,836)      | (324,710,836)   |
| At 31 March 2009             | 44,441,083         | –                  | 44,441,083      |
| Issued during the year       | 2,800,000          | –                  | 2,800,000       |
| At 31 March 2010             | 47,241,083         | –                  | 47,241,083      |

|                             | Ordinary<br>£ | Deferred<br>£ | Total<br>£  |
|-----------------------------|---------------|---------------|-------------|
| Issued and fully paid       |               |               |             |
| Par value of shares         |               |               |             |
| At 1 April 2008             | 433,711       | 2,922,397     | 3,356,108   |
| Issued during the year      | 10,700        | –             | 10,700      |
| Share cancelled (see below) | –             | (2,922,397)   | (2,922,397) |
| At 31 March 2009            | 444,411       | –             | 444,411     |
| Issued during the year      | 28,000        | –             | 28,000      |
| At 31 March 2010            | 472,411       | –             | 472,411     |

In 2005 and 2006 the company issued warrants to subscribe to ordinary shares of 1p each, movements on the numbers of warrants outstanding are shown in the table below:

|   | Number of<br>warrants |
|---|-----------------------|
| At 1 April 2008                           | 4,750,000             |
| Lapsed during the year                    | (1,250,000)           |
| At 1 April 2009                           | 3,500,000             |
| Exercised during the year at 5p per share | (1,350,000)           |
| Exercised during the year at 4p per share | (1,000,000)           |
| At 31 March 2010                          | 1,150,000             |

All the outstanding warrants are exercisable at a price of 5p per share with a final exercise date of 30 September 2010.

On 6 December 2007 the authorised share capital of 500,000,000 ordinary shares of 1p each was subdivided into 50,000,000 new ordinary shares of 1p each and 500,000,000 deferred shares of 0.9p each and the 324,710,836 ordinary shares of 1p each then in issue were subdivided into 32,471,083 ordinary shares of 1p each and 324,710,836 deferred shares of 0.9p each.

The deferred shares had no voting or other rights and were effectively valueless. Cancellation of the deferred shares was approved by shareholders on 5 August 2008 and this was approved by the Court of Sessions on 31 March 2009.

On 24 January 2008 the company issued warrants to subscribe to 1,000,000 ordinary shares at 1p each at a price of 4p per share at any time up to 30 September 2010, these warrants were exercised in full on 31 March 2010 and none of these warrants remain outstanding at 31 March 2010. These warrants were issued to a distributor as part of a variation to the distribution agreement.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 20 Share capital continued

On 5 August 2008 the shareholders approved an increase in the authorised share capital by the creation of an additional 25,000,000 new ordinary shares of 1p each.

On 4 November 2008 1,000,000 ordinary shares were issued at a price of 2p each to management, 600,000 of which were issued under the share loan scheme. On 30 March 2009 a further 70,000 shares were issued to staff under the share loan scheme at a price of 3p each. The share loan scheme enables staff to acquire shares by way of an interest free loan repayable by 60 equal monthly instalments which are deducted from their salary and are repayable in full if the member of staff leaves.

On 31 March 2009 the Court of Sessions in Edinburgh gave approval to the cancellation of deferred shares on the same terms as those approved by shareholders on 5 August 2008.

On 2 March 2010 a further 450,000 ordinary shares were issued at a price of 7.8p per share to members of staff under the share loan scheme as described above.

On 31 March 2010, following the exercise of warrants as described above, 2,350,000 ordinary shares were issued, 1,000,000 at 4p each and 1,350,000 at 5p each.

### 21 Share capital and reserves

|  | Group                  |                    |                    |                     |                          |            |
|--|------------------------|--------------------|--------------------|---------------------|--------------------------|------------|
|  | Retained earnings<br>£ | Share capital<br>£ | Share premium<br>£ | Other reserves<br>£ | Translation reserve<br>£ | Total<br>£ |
| 1 April 2008   | (4,109,670)            | 3,356,108          | 748,303            | 47,240              | 96,680                   | 138,661    |
| Exchange differences on translation of overseas operations | –                      | –                  | –                  | –                   | (34,562)                 | (34,562)   |
| Profit for the year  | 415,649                | –                  | –                  | –                   | –                        | 415,649    |
| Issue of shares  | –                      | 10,700             | 11,400             | –                   | –                        | 22,100     |
| Cancellation of shares                                     | 3,670,700              | (2,922,397)        | (748,303)          | –                   | –                        | –          |
| Costs of share cancellation                                | –                      | –                  | (11,400)           | –                   | –                        | (11,400)   |
| Share based payments                                       | –                      | –                  | –                  | (1,670)             | –                        | (1,670)    |
| 1 April 2009   | (23,321)               | 444,411            | –                  | 45,570              | 62,118                   | 528,778    |
| Exchange differences on translation of overseas operations | –                      | –                  | –                  | –                   | 5,536                    | 5,536      |
| Profit for the year  | 637,369                | –                  | –                  | –                   | –                        | 637,369    |
| Issue of shares  | –                      | 28,000             | 114,600            | –                   | –                        | 142,600    |
| Share based payments                                       | –                      | –                  | –                  | 4,950               | –                        | 4,950      |
| Transfer on exercise of warrants                           | 6,140                  | –                  | –                  | (6,140)             | –                        | –          |
| Payment of dividend  | (66,662)               | –                  | –                  | –                   | –                        | (66,662)   |
| 31 March 2010  | 553,526                | 472,411            | 114,600            | 44,380              | 67,654                   | 1,252,571  |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 21 Share capital and reserves continued

|                                  | Company                |                    |                    |                     |            |
|----------------------------------|------------------------|--------------------|--------------------|---------------------|------------|
|                                  | Retained earnings<br>£ | Share capital<br>£ | Share premium<br>£ | Other reserves<br>£ | Total<br>£ |
| 1 April 2008                     | (3,891,748)            | 3,356,108          | 748,303            | 47,240              | 259,903    |
| Profit for the year              | 361,764                | –                  | –                  | –                   | 361,764    |
| Issue of shares                  | –                      | 10,700             | 11,400             | –                   | 22,100     |
| Cancellation of shares           | 3,670,700              | (2,922,397)        | (748,303)          | –                   | –          |
| Costs of share cancellation      | –                      | –                  | (11,400)           | –                   | (11,400)   |
| Share based payments             | –                      | –                  | –                  | (1,670)             | (1,670)    |
| 1 April 2009                     | 140,716                | 444,411            | –                  | 45,570              | 630,697    |
| Profit for the year              | 283,667                | –                  | –                  | –                   | 283,667    |
| Issue of shares                  | –                      | 28,000             | 114,600            | –                   | 142,600    |
| Share based payments             | –                      | –                  | –                  | 4,950               | 4,950      |
| Transfer on exercise of warrants | 6,140                  | –                  | –                  | (6,140)             | –          |
| Payment of dividend              | (66,662)               | –                  | –                  | –                   | (66,662)   |
| 31 March 2010                    | 363,861                | 472,411            | 114,600            | 44,380              | 995,252    |

The share premium reserve records the premium above the par value of the shares paid on the issue of shares by the company, less the costs of the issue of shares.

The translation reserve arises from currency differences arising on the retranslation of foreign currency balances as explained in accounting policy 1(j).

Retained earnings reflect changes in equity not shown elsewhere and are the group and company's distributable reserves.

Other reserves include both the cumulative amount of the fair value of warrants and the cumulative amount charged to the income statement in respect of the company's share options as set out in note 8. The following table provides further detail on these reserves:

#### Other reserves

|                                  | Group                       |                           |            | Company                     |                           |            |
|----------------------------------|-----------------------------|---------------------------|------------|-----------------------------|---------------------------|------------|
|                                  | Fair value of warrants<br>£ | Share option reserve<br>£ | Total<br>£ | Fair value of warrants<br>£ | Share option reserve<br>£ | Total<br>£ |
| 1 April 2008                     | 8,100                       | 39,140                    | 47,240     | 8,100                       | 39,140                    | 47,240     |
| Share based payments             | –                           | (1,670)                   | (1,670)    | –                           | (1,670)                   | (1,670)    |
| 1 April 2009                     | 8,100                       | 37,470                    | 45,570     | 8,100                       | 37,470                    | 45,570     |
| Share based payments             | –                           | 4,950                     | 4,950      | –                           | 4,950                     | 4,950      |
| Transfer on exercise of warrants | (6,140)                     | –                         | (6,140)    | (6,140)                     | –                         | (6,140)    |
| 31 March 2010                    | 1,960                       | 42,420                    | 44,380     | 1,960                       | 42,420                    | 44,380     |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 22 Notes to the cash flow statement

#### (a) Net cash inflow from operating activities

|  | Group          |                | Company        |                |
|--|----------------|----------------|----------------|----------------|
|  | 2010<br>£      | 2009<br>£      | 2010<br>£      | 2009<br>£      |
| <b>Operating activities</b>                      |                |                |                |                |
| Profit before income taxation                    | 628,294        | 536,737        | 283,667        | 361,764        |
| Adjustments for:                                 |                |                |                |                |
| Investment income                                | (3,622)        | (7,141)        | (100,064)      | (50,457)       |
| Finance costs                                    | 32,106         | 54,129         | 22,500         | 45,048         |
| Depreciation and amortisation                    | 44,321         | 33,720         | 5,469          | –              |
| Provisions                                       | –              | –              | (20,000)       | –              |
| Share based payments                             | 4,950          | (1,670)        | 4,950          | (1,670)        |
| Loss on disposal of property, plant & equipment  | 131            | –              | –              | –              |
| Exchange gains and losses                        | 5,536          | (35,842)       | –              | (8,960)        |
| (Increase)/decrease in receivables               | (556,156)      | 178,529        | 10,377         | (75,756)       |
| Increase/(decrease) in payables                  | 393,027        | (30,387)       | (35,020)       | (69,043)       |
| <b>Net cash inflow from operating activities</b> | <b>548,587</b> | <b>728,075</b> | <b>171,879</b> | <b>200,926</b> |

#### (b) Analysis of changes in net cash (group)

|   | 1 April<br>2009<br>£ | Cash<br>movements<br>£ | Other<br>movements<br>£ | 31 March<br>2010<br>£ |
|---|----------------------|------------------------|-------------------------|-----------------------|
| Cash and cash equivalents               | 626,180              | 246,668                | 94,775                  | 967,623               |
| Debt due within one year                | (260,008)            | 260,008                | (10,008)                | (10,008)              |
| Debt due after more than one year       | (20,770)             | –                      | 10,008                  | (10,762)              |
|   | 345,402              | 506,676                | 94,775                  | 946,853               |
| Finance leases due within one year      | (10,215)             | 11,118                 | (9,871)                 | (8,968)               |
| Finance leases after more than one year | (7,351)              | –                      | 7,351                   | –                     |
| Net cash                                | 327,836              | 517,794                | 92,255                  | 937,885               |

Included in other movements on cash and cash equivalents is a foreign exchange movement of £68,345 (2009: £29,807).

#### (c) Reconciliation of net cash flow movement to movement in net cash (group)

|                                | 2010<br>£      | 2009<br>£        |
|--------------------------------|----------------|------------------|
| Increase in cash               | 273,098        | 513,993          |
| Decrease in finance leases     | 8,598          | 3,401            |
| Decrease in bank loan          | 10,008         | 10,008           |
| Decrease in loan notes         | 250,000        | 125,000          |
| Translation difference         | 68,345         | 29,807           |
| <b>Increase in net cash</b>    | <b>610,049</b> | <b>682,209</b>   |
| <b>Opening net cash/(debt)</b> | <b>327,836</b> | <b>(354,373)</b> |
| <b>Closing net cash</b>        | <b>937,885</b> | <b>327,836</b>   |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 23 Operating lease commitments

At 31 March 2010 the group was committed to making minimum lease payments under non-cancellable operating leases as follows:

|                            | Group            |           |                    |           |
|----------------------------|------------------|-----------|--------------------|-----------|
|                            | Office equipment |           | Land and buildings |           |
|                            | 2010<br>£        | 2009<br>£ | 2010<br>£          | 2009<br>£ |
| Within one year            | 752              | 752       | 68,945             | 61,811    |
| Between one and five years | –                | 752       | 34,918             | 56,379    |
|                            | 752              | 1,504     | 103,863            | 118,190   |

Operating leases represent rental payments payable by the group for certain of its office properties and items of office equipment. The average contractual life of these leases is two years and only one of the lease obligations extends beyond 30 April 2011, in this case the lease extends to March 2016 but there is a break clause in November 2012. In the ordinary course of business these leases are renewable. Rental payments under these leases are fixed until the end of the term, with the exception of the South African premises which are subject to an annual increase of 9% on 1 May in each year.

### 24 Related party transactions

Since 1 January 2005, the company has paid Sidebell Limited amounts for the use of Sidebell's offices and the use of accountancy services. S A Richards, a director of the company, has an interest in the share capital of Sidebell Limited. In the year to 31 March 2010, these amounts were £2,000 per month, totalling £24,000 (2009: £24,000). The balance due to Sidebell Limited at 31 March 2010 was £Nil (2009: £Nil).

At 31 March 2008 Sidebell Limited, S A Richards and J E A Mocatta held £300,000, £5,000 and £5,000 respectively of the loan notes 2009, on 31 March 2009 £110,000 was repaid to Sidebell Limited as were the loan notes due to S A Richards and J E A Mocatta. The remaining £190,000 loan notes due to Sidebell Limited were extended to 30 September 2010, but all have been redeemed early by the company before 31 March 2010. At 31 March 2010 all the loan notes had been redeemed. Interest due, of £22,800, on the loan notes was paid on 30 September 2009 and interest due of £5,700 was paid on 31 March 2010 on the loan notes that were repaid on that date. These loan notes carry warrants to subscribe to ordinary shares, full details of these and other warrants held by related parties are set out in the directors' report.

The directors' report sets out the interests of the directors in the share capital of the company, in addition all the directors hold share options under the group's share option scheme and these are also disclosed in that report. Key management remuneration is as follows:

|                       | 2010<br>£ | 2009<br>£ |
|-----------------------|-----------|-----------|
| Salaries              | 221,300   | 195,300   |
| Social security costs | 22,218    | 19,959    |
| Share-based payments  | 4,950     | (1,670)   |
|                       | 248,468   | 213,589   |

Refer to the remuneration report, and note 9, for further details of the remuneration of directors employed by the company.

During the year the company entered into the following transactions with its subsidiaries:

|  | 2010<br>£ | 2009<br>£ |
|--|-----------|-----------|
| Management charges received              | 300,000   | 144,000   |
| Dividends received                       | 100,000   | 50,000    |
| Licence fee received                     | 120,000   | 120,000   |
| Amounts owed by subsidiaries at year end | 1,288,017 | 1,562,402 |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 24 Related party transactions continued

The management charges reflect a charge to partly recover the time of the group directors and the cost of central services such as administrative offices, the conduct of the audit and the maintenance of professional insurances.

As shown in note 16, impairment provisions totalling £579,795 (2009: £806,312) have been made against the amounts shown as due from subsidiaries in the table above.

### 25 Financial instruments and risk summary

#### (a) Financial risk policies and objectives

The group's financial instruments comprise, for the purposes of IFRS 7, cash and cash equivalents, loans and finance leases. Details of the significant accounting policies in relation to these financial assets and liabilities are disclosed in note 1 to the financial statements.

All financial assets are categorised as loans and receivables as follows:

|                                      | Group            |                  | Company        |                |
|--------------------------------------|------------------|------------------|----------------|----------------|
|                                      | 2010<br>£        | 2009<br>£        | 2010<br>£      | 2009<br>£      |
| <b>Non-current financial assets:</b> |                  |                  |                |                |
| Trade and other receivables          | 36,060           | 10,780           | 616,282        | 628,184        |
|                                      | 36,060           | 10,780           | 616,282        | 628,184        |
| <b>Current financial assets:</b>     |                  |                  |                |                |
| Trade and other receivables          | 873,806          | 389,950          | 173,958        | 172,433        |
| Cash and cash equivalents            | 967,623          | 626,180          | 131,017        | 71,388         |
|                                      | 1,841,429        | 1,016,130        | 304,975        | 243,821        |
| <b>Total</b>                         | <b>1,877,489</b> | <b>1,026,910</b> | <b>921,257</b> | <b>872,005</b> |

All financial liabilities are categorised as other financial liabilities as follows:

|   | Group            |                  | Company       |                |
|---|------------------|------------------|---------------|----------------|
|   | 2010<br>£        | 2009<br>£        | 2010<br>£     | 2009<br>£      |
| <b>Current financial liabilities:</b>     |                  |                  |               |                |
| Trade and other payables                  | 1,176,935        | 703,039          | 84,792        | 134,812        |
| Bank loan                                 | 10,008           | 10,008           | –             | –              |
| Loan notes                                | –                | 250,000          | –             | 250,000        |
| Obligations under finance leases          | 8,968            | 10,215           | –             | –              |
|   | 1,195,911        | 973,262          | 84,792        | 384,812        |
| <b>Non-current financial liabilities:</b> |                  |                  |               |                |
| Bank loan                                 | 10,762           | 20,770           | –             | –              |
| Obligations under finance leases          | –                | 7,351            | –             | –              |
|   | 10,762           | 28,121           | –             | –              |
| <b>Total</b>                              | <b>1,206,673</b> | <b>1,001,383</b> | <b>84,792</b> | <b>384,812</b> |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 25 Financial instruments and risk summary continued

#### (a) Financial risk policies and objectives continued

The Board's principal objective in managing its financial assets and liabilities is to ensure that the operating units have sufficient working capital for their day-to-day needs. Surplus cash is maintained on call deposits with the clearing bankers to the operating units, as the group is not yet sufficiently cash generative to warrant a separate treasury function or take advantage of greater returns that may be available from other sources or maturities. The group does derive income in overseas currencies, principally the US dollar, and does incur expenses in overseas currencies, principally the costs of its South African operation which is Rand based. No forward contracts have been entered into to hedge these exposures as these would give the group's bankers additional credit exposure and the Board consider that such exposure as is available to them is better deployed elsewhere in the group's operations. The Board would expect this policy to change as the group develops.

#### (b) Capital risk management

The directors consider the company's capital comprises its share capital and reserves and any loan notes in issue. Whenever possible the group has financed its operations from equity share issues, as the Board considers this helps to ensure that entities in the group will be able to continue in business as going concerns. In the past there have been occasions when capital has been required and the market price of the group's shares has been below their par value, and in those circumstances the group has raised convertible debt finance. The market price of the group's shares is regularly reviewed by the Board and if it persists at below par value for a prolonged period the Board will convene a meeting of shareholders to consider a reduction in the par value of the shares in order to ensure that equity markets remain open to the group as a source of capital.

#### (c) Foreign currency risk and sensitivity

The group has an overseas subsidiary whose functional currency is Rand and in addition undertakes transactions denominated in foreign currencies, principally US dollars, hence exposures to exchange rate fluctuations arise. The carrying amount of the group's foreign currency denominated financial assets and financial liabilities at the reporting date is as follows:

|        | Assets    |           | Liabilities |           |
|--------|-----------|-----------|-------------|-----------|
|        | 2010<br>£ | 2009<br>£ | 2010<br>£   | 2009<br>£ |
| Rand   | 65,980    | 122,931   | 15,503      | 17,566    |
| Dollar | 604,711   | 133,598   | 74,536      | –         |
| Euros  | 13,248    | –         | 2,212       | –         |
|        | 683,939   | 256,529   | 92,251      | 17,566    |

The company does not have any exposure to foreign currencies as all its transactions are in sterling. The group's exposure to the Rand is such that were the Rand to appreciate by 10% against sterling the cost of its operations in South Africa would rise by £107,814 (2009: £82,685), this would be mitigated by a rise in the value in the groups' Rand assets of £15,134 (2009: £26,030). The groups' exposure to the US dollar is such that were the dollar to depreciate by 10% against sterling profit would be reduced by £117,054 (2009: £41,888). The Board are aware that these are significant risks and are intending to negotiate forward exchange facilities with their bankers when the group's credit position is sufficiently strong to warrant them.

#### (d) Market risk

The group's activities expose it to the financial risks of changes in foreign currency exchange rates (see section (c)) and interest rates (see section (f)). As explained above, the group has, for the present, accepted exposure to these risks.

#### (e) Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which regularly reviews the short, medium and long term funding and liquidity management requirements. The board consider that equity remains the most appropriate source of funds for the business at its present stage of development and endeavours to maintain access to equity capital markets to fund medium and long term liquidity requirements. Financial assets are maintained on short term deposit to assist with the management of day-to-day working capital requirements.

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 25 Financial instruments and risk summary continued

#### (f) Interest rate risk and sensitivity

The group has financial assets of £1,877,489 at 31 March 2010 (2009: £1,026,910) comprising cash deposits and trade and other receivables. Trade and other receivables have been excluded from the following tables as they are non-interest bearing.

The interest rate profile of the group's financial assets, excluding trade and other receivables was:

|                | Floating rate<br>deposits<br>2010<br>£ | Average rate<br>2010<br>% | Floating rate<br>deposits<br>2009<br>£ | Average rate<br>2009<br>% |
|----------------|--|---------------------------|--|---------------------------|
| <b>Group</b>   |  |                           |  |                           |
| Currency       |  |                           |  |                           |
| Sterling       | 519,671                                | 1%                        | 369,651                                | 1%                        |
| Rand           | 65,980                                 | 9%                        | 122,931                                | 9%                        |
| Dollar         | 381,972                                | 0%                        | 133,598                                | 0%                        |
|                | <u>967,623</u>                         |                           | <u>626,180</u>                         |                           |
| <b>Company</b> |  |                           |  |                           |
| Sterling       | <u>131,017</u>                         | 0%                        | <u>71,388</u>                          | 0%                        |

The group has financial liabilities of £345,543 (2009: £512,385). Trade and other payables are excluded from the following tables as they are non-interest bearing.

The interest rate profile of the group's financial liabilities, excluding trade and other payables, at 31 March 2010 was:

|                     | Floating rate<br>liabilities<br>£ | Fixed rate<br>liabilities<br>£ | Total financial<br>liabilities<br>£ | Average rate<br>of floating rate<br>liabilities<br>% |
|---------------------|-----------------------------------|--------------------------------|-------------------------------------|--|
| <b>Group</b>        |                                   |                                |                                     |  |
| Currency            |                                   |                                |                                     |  |
| Sterling loan notes | –                                 | –                              | –                                   | –  |
| Sterling bank loan  | 20,770                            | –                              | 20,770                              | 8.25%  |
| Rand finance lease  | –                                 | 8,968                          | 8,968                               | –  |
|                     | <u>20,770</u>                     | <u>8,968</u>                   | <u>29,738</u>                       | –  |
| <b>Company</b>      |                                   |                                |                                     |  |
| Sterling loan notes | –                                 | –                              | –                                   | –  |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010

### 25 Financial instruments and risk summary continued

#### (f) Interest rate risk and sensitivity continued

The interest rate profile of the group's financial liabilities, excluding trade and other payables, at 31 March 2009 was:

| Group               | Floating rate liabilities<br>£ | Fixed rate liabilities<br>£ | Total financial liabilities<br>£ | Average rate of floating rate liabilities |
|---------------------|--------------------------------|-----------------------------|----------------------------------|---|
| Currency            |                                |                             |                                  |   |
| Sterling loan notes | –                              | 250,000                     | 250,000                          | –   |
| Sterling bank loan  | 30,778                         | –                           | 30,778                           | 8.25%                                     |
| Rand finance lease  | –                              | 17,566                      | 17,566                           | –   |
|                     | 30,778                         | 267,566                     | 298,344                          | –   |
| <b>Company</b>      |                                |                             |                                  |   |
| Sterling loan notes | –                              | 250,000                     | 250,000                          | –   |

The average interest rate of floating rate liabilities in the year and in the previous year is based on Libor +2%.

The entire group's trade and other payables falling due within one year (other than bank loans, loan notes and finance leases) are excluded from above because they are either short term payables or fall outside the definition of a financial liability. The group's loan facilities at 31 March 2010 were fully drawn.

The Sterling fixed rate liability is fixed at 12% and the Rand fixed rate liability is at 21.06% for five years from the inception of the lease.

The bulk of the group's borrowings are at fixed rates and an increase or decrease of 1% in interest rates would have no material affect on the group's income statement.

The following tables detail the remaining contractual maturity for the group and company's financial liabilities. The table is based on the earliest date on which the group can be required to pay. The table includes both principal cash flows and interest, or an estimate of interest for floating rate instruments and excludes trade and other payables as the contractual maturities are all due within one year of the balance sheet date.

| Group                   | Average interest rate | Due within one year<br>£ | Due in one to two years<br>£ | Due in two-five years<br>£ | Total<br>£ |
|-------------------------|-----------------------|--------------------------|------------------------------|----------------------------|------------|
| <b>2010</b>             |                       |                          |                              |                            |            |
| Finance lease liability | 26%                   | 8,968                    | –                            | –                          | 8,968      |
| Floating rate bank loan | 8.25%                 | 10,008                   | 10,762                       | –                          | 20,770     |
|                         |                       | 18,976                   | 10,762                       | –                          | 29,738     |
| <b>2009</b>             |                       |                          |                              |                            |            |
| Finance lease liability | 26%                   | 13,764                   | 8,030                        | –                          | 21,794     |
| Floating rate bank loan | 8.25%                 | 12,134                   | 11,309                       | 11,245                     | 34,688     |
| Sterling loan notes     | 12%                   | 265,000                  | –                            | –                          | 265,000    |
|                         |                       | 290,898                  | 19,339                       | 11,245                     | 321,482    |

## NOTES TO THE FINANCIAL STATEMENTS

31 March 2010 continued

### 25 Financial instruments and risk summary continued

#### (f) Interest rate risk and sensitivity continued

| Company             | Average interest rate | Due within one year<br>£ | Due in one to two years<br>£ | Due in two-five years<br>£ | Total<br>£ |
|---------------------|-----------------------|--------------------------|------------------------------|----------------------------|------------|
| Sterling loan notes | 12%                   | –                        | –                            | –                          | –          |
| <b>2009</b>         |                       |                          |                              |                            |            |
| Sterling loan notes | 12%                   | 265,000                  | –                            | –                          | 265,000    |

#### (g) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. The group has a credit policy of only dealing with creditworthy counterparties as a means of mitigating this risk. The group's exposure to credit risk is monitored on a monthly basis and remedial action taken where appropriate.

Despite the above policies there does remain a concentration of credit risk in that two customers, one a major bank and the other a major insurance company, constitute 30.7% (2009: 41.8%) of the groups trade and other receivables. These receivables are within their trading terms but nonetheless present an ongoing risk. The group is endeavouring to mitigate this risk by gaining new customers at a faster rate than business with these two counterparties develops.

The group's maximum exposure to credit risk on its financial assets is £1,877,489 (2009: £1,026,910), for the company its maximum exposure, excluding amounts due from subsidiaries, is £213,035 (2009: £115,915). The group does not hold any collateral against these financial assets.

#### (h) Fair value of financial instruments

There is no material difference between the fair value and carrying value of financial assets and liabilities.

### 26 Contingent liabilities

The company has a contingent liability in respect of the value added tax of certain subsidiary companies under a group registration and is therefore jointly and severally liable for all the other group companies debt in this respect. At 31 March 2010 the maximum potential liability was £17,382 (2009: £19,689).

The company has an additional contingent liability in respect a guarantee given in relation to banking facilities granted to a subsidiary company. At 31 March 2010 the extent of these facilities was £20,770 (2009: £30,778).

The company disposed of interests in a number of leasehold properties during the 15 months to 31 March 2002 but retains a contingent liability in respect of one of those properties should the assignees fail to fulfil their obligations under the lease. For this lease, which expires in 2013 and where the annual rent is £135,000, the assignee's obligations are guaranteed by a major clearing bank. The directors consider it unlikely that there will be any cost to the company.

## NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY given that the Annual General Meeting of red24 plc ('the Company') will be held at 11.00 a.m. on Tuesday 3 August 2010 at the offices of red24, The London Underwriting Centre, 3 Mincing Lane, London, EC3R 7DD, for the following purposes:

### Ordinary business

To consider as ordinary business and, if thought fit, to pass the following resolutions which will be proposed as ordinary resolutions:

- 1 To receive and consider the Company's accounts for the year ended 31 March 2010 and the Directors' Report and Auditors' Report thereon.
- 2 To re-appoint S A Richards as a director of the Company.
- 3 To appoint Baker Tilly UK Audit LLP as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the members and to authorise the directors to agree their remuneration.

### Special business

To consider as special business and, if thought fit, to pass the following resolution which will be proposed as an ordinary resolution:

- 4 THAT: subject only to Resolution 5 below being passed as a Special Resolution, the directors of the Company be and they are hereby generally and unconditionally authorised to exercise all the powers of the Company to allot relevant securities (as defined in Section 551 of the Companies Act 2006 ("the Act")) up to a nominal amount equal to £125,000 provided that this authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the earlier of the conclusion of the Annual General Meeting of the Company next following the passing of this Resolution and 15 months from the date of this Resolution and further provided that the Company shall be entitled before such expiry to make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the Company shall be entitled to allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired.

To consider as special business and, if thought fit, to pass the following resolution which will be proposed as a special resolution:

- 5 THAT subject to Resolution 4 above being duly passed as an Ordinary Resolution, the directors of the Company be and they are hereby empowered pursuant to Section 571 of the Act to allot equity securities (as defined in Section 560 of the Act) for cash pursuant to and for the duration of the authority conferred on them by Resolution 4 above as if Section 561 of the Act did not apply to any such allotment provided that this authority is limited to:
  - 5.1 the allotment of equity securities in connection with any rights issue in favour of ordinary shareholders on the register of members at such record date or dates as the directors of the Company may determine where the equity securities to be issued are respectively attributable to the interests of all such holders of ordinary shares held by them at such record date or dates, provided that the directors of the Company may make such arrangements or exclusions as they consider necessary or expedient in respect of fractional entitlements or legal or practical problems arising in any overseas territory or the requirements of any regulatory body or stock exchange;
  - 5.2 the allotment of equity securities pursuant to the terms of any share scheme for employees adopted by the Company; and
  - 5.3 the allotment (otherwise than pursuant to sub-paragraphs 5.1 or 5.2 above) of equity securities up to an aggregate nominal amount of £100,000.

and shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the earlier of the conclusion of the Annual General Meeting of the Company next following the passage of this Resolution and fifteen months from the date of this Resolution, save that the Company may before the expiry of the authority conferred by this Resolution

## NOTICE OF ANNUAL GENERAL MEETING

continued

make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity securities in pursuance of such offer or agreement notwithstanding that such authority has expired.

10 June 2010

By order of the Board

**J E A Mocatta**  
Secretary

Registered office  
Breckenridge House  
274 Sauchiehall Street  
Glasgow G2 3EH  
Registered in Scotland No. SCO86069

### Notes

- 1 In accordance with Regulation 41 of the Uncertificated Securities Regulations 2001, only those members entered on the Company's register of members not later than 4.00pm on 1 August 2010 or, if the meeting is adjourned, shareholders entered on the Company's register of members not later than 48 hours before the time fixed for the adjourned meeting, shall be entitled to attend and vote at the meeting.
- 2 If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the meeting.  

A form of proxy is enclosed which you are invited to complete and return. Completion and return of the proxy form in accordance with the instructions thereon will not prevent you from attending and voting at the Meeting, instead of your proxy, if you wish to do so.
- 3 A proxy does not need to be a member of the Company but must attend the Meeting to represent you. Details of how to appoint the Chairman of the Meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the Meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
- 4 You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the proxy form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned in the same envelope.
- 5 The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.  

To appoint a proxy using the proxy form, the form must be:

  - completed and signed;
  - sent or delivered to the Company's registrars, Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; and
  - received not later than 48 hours before the time fixed for the Meeting at which the proxy is to vote.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.
- 6 In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
- 7 To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.  

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Company's registrars, Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU for details.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
- 8 In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars, Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU for details. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.  

The revocation notice must be received by the Company's registrars, Capita Registrars of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 48 hours before the time fixed for the Meeting at which the proxy is to vote.

Appointment of a proxy does not preclude you from attending the Meeting and voting in person. If you have appointed a proxy and attend the Meeting in person, your proxy appointment will automatically be terminated.
- 9 A vote withheld is not a vote in law and will not be counted in the calculation of the proportion of votes for or against a resolution.
- 10 Copies of the directors' contracts of service are available for inspection at the Company's registered office during normal business hours on each business day from the date of this notice until the day of the Annual General Meeting and will be at the place of the Annual General Meeting for one hour before, and until the conclusion of, the Meeting.

## DIRECTORS AND ADVISERS

### DIRECTORS

S A Richards, MA MSc FCA (Executive Chairman)  
J E A Mocatta, MA FCA (Non-Executive Director)  
M S H Worsley-Tonks MBE (Executive Director)

### SECRETARY

J E A Mocatta, MA FCA

### REGISTERED OFFICE

Breckenridge House  
274 Sauchiehall Street  
Glasgow G2 3EH

### NOMINATED ADVISER AND BROKER

Seymour Pierce Limited  
20 Old Bailey  
London EC4M 7EN

### REGISTRARS

Capita Registrars  
Northern House  
Woodsome Park  
Fenay Bridge  
Huddersfield HD8 0GA

### INDEPENDENT AUDITOR

Baker Tilly UK Audit LLP  
Chartered Accountants  
2 Bloomsbury Street  
London WC1B 3ST

### ADMINISTRATIVE OFFICE

The Coach House  
Bill Hill Park  
Wokingham  
Berkshire RG40 5QT

### BANKERS

HSBC Bank plc  
26-28 Broad Street  
Reading  
Berkshire RG1 2BU

### SOLICITORS

Farrer & Co LLP  
66 Lincoln's Inn Fields  
London WC2A 3LH



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**red24 plc**

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