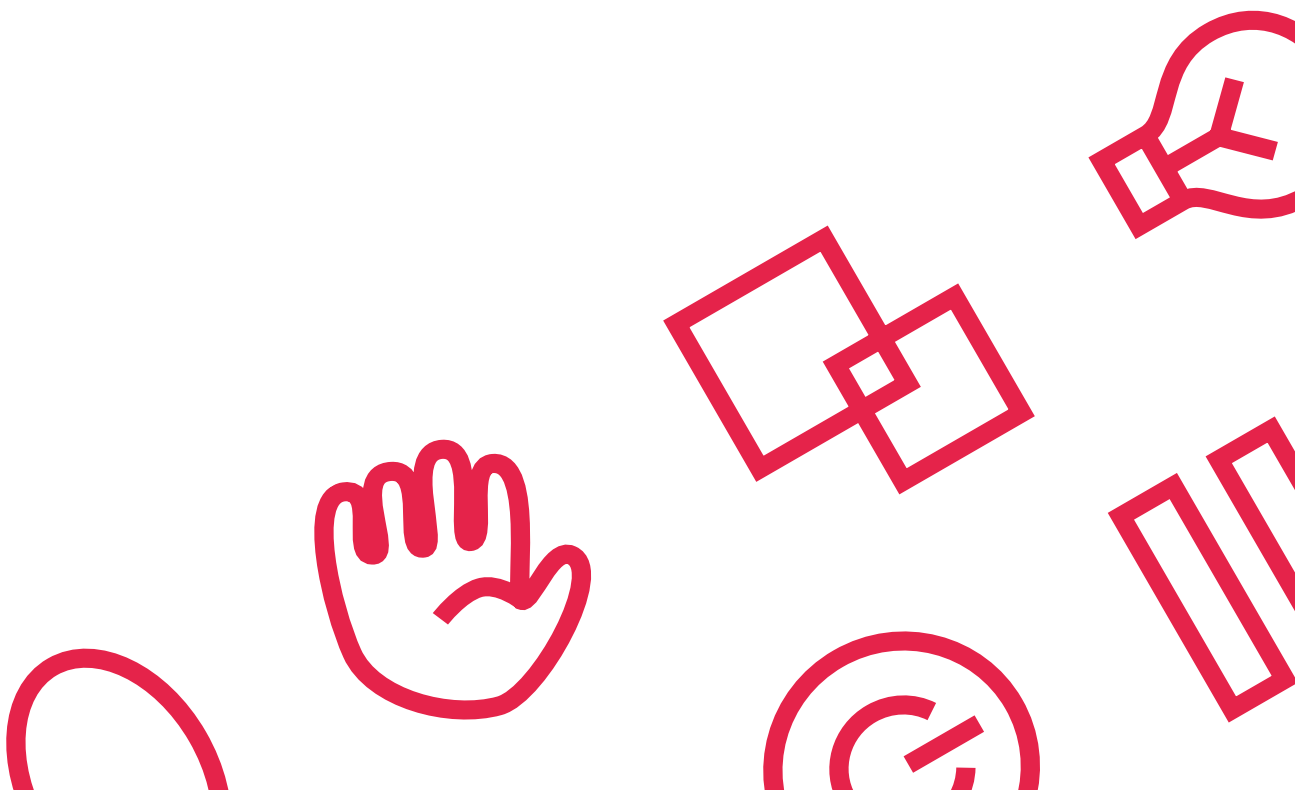




Annual Report & Accounts 2010



assisting businesses through technology

Statement by the Chairman

The Board is pleased to report another solid performance in 2010 by the business, recording a fifth successive year of double digit growth in both turnover and profits; since 2005, turnover has more than doubled, from £5.09 million (2005) to £10.98 million (2010) and pre-tax, pre-amortisation profits and pre-share based payments has shown a seven-fold increase over the same period, up from £108,000 to £758,000.

Financial Results

For the year ended December 2010, the Group is reporting a creditable performance against a backdrop of economic uncertainty with turnover increasing in the period by 12.27% to £10.98 million (2009: £9.78 million).

Group profit (before tax, share-based payments, goodwill impairment and amortisation of intangible assets of £74,000 (2009: £71,000) rose by 13.98% to £758,000 (2009: £665,000). Reported profit before tax increased by 15.15% year-on-year to £684,000 (2009: £594,000).

Diluted earnings per share rose to 2.46 pence, an increase of 10.81% over the comparable period (2009: 2.22 pence).

The Group continues to operate a strong balance sheet and, during 2010, the business placed £500,000 of its cash with HSBC Investments to offset the very poor interest being earned on cash on deposit; as announced in October, an initial investment of £200,000 in cash was made to acquire a stake in Speed-Trap Holdings Limited ('Speed-Trap'). Our total investment in Speed-Trap will be £700,000, with the balance of £500,000 becoming due in first quarter of the current financial year.

The Group's cash position remains strong with cash flow from operations at £645,000 (2009: £834,000) leaving cash at the year end of £574,000 (2009: £1.24 million). Net assets at 31 December 2010 were £3.89 million compared to £3.54 million in 2009. The business continues to operate well within its banking facilities which are in place and not due for renewal until 2012.

Overview

The second half of the year again saw strong growth in our recurring revenue stream which increased to 41.4% of total revenue versus 36.4% in 2009.

The strength of our recurring revenues helps to shield us from the worst of any ups and downs within the economy and last year, this growth occurred mainly in the area of the Managed Services for our web-based analytics which is becoming a key component of our business (The Business Analytics market is forecast to grow at a compound rate of 7.2% to 2013 and the service side is set to grow at three times that rate *source IDC*).

As a result, the Board decided to take a strategic stake, alongside the international private equity and investment banking firm Beringea LLP in Speed-Trap, an independent software vendor of patented technologies that analyse how users interact with online applications. Founded in 1999, Speed-Trap has a partner network which, along with IS Solutions, includes Oracle, Teradata and SAS.

Due to the overall economic climate, 2010 proved a tough year for Projects with revenues falling by 16.3% as our clients rode out the financial storm. We were able to avoid cutbacks in staff however by re-training people to work on the areas of

Statement by the Chairman (Continued)

growth and I would like to thank our staff for their flexibility and co-operation in implementing this.

Product License sales were up on the previous year by 20.6%. This type of sale affects the revenue figure but due to the low margin nature of the distribution business, has less impact on the profitability of the Company.

Personnel

Once again, the Board would like to express its appreciation and thanks to all employees for their on-going support and in particular their flexibility and willingness to adapt to the changing technology and business areas in 2010. Our staff (and the knowledge that resides with them), are our most important asset; it is their adaptability and teamwork that allows us to give the consistency of service to clients and supplier partners that is the foundation of our business success.

Dividend

At the half-year, the Board increased the interim dividend. Following the strong second half performance, the Board will be recommending to shareholders an increase in the final dividend to 0.79 pence (2009: 0.77 pence). This together with the interim dividend of 0.36 pence (2009: 0.33 pence) paid in October 2010, gives a total for the year of 1.15 pence in 2010 (2009: 1.10 pence).

The final dividend, which is subject to shareholders' approval at the AGM (which is to be held on 19 May 2011), has an ex-dividend date of 27 April 2011 and will be paid on 27 May 2011 to shareholders on the Register at close of business on 3 May 2011.

Outlook

It seems that over the past few years that, whenever I come to write the 'Outlook' for the coming year, there is another crisis looming over the economy – this time in the form of escalating oil prices due to the unrest in the Middle East!

Despite this backdrop, I can report that the strong demand for our Managed Services, seen in 2010 has continued into 2011. Coupled with this growth we are seeing signs of Project work returning to pre-2010 levels, from both our traditional customer base and also growth in our newer analytical customer base; therefore, we expect a stronger performance from this area of the business as we progress through the year.

Against this, we are seeing a drop in demand from our distribution led Product License sales as a large part of this has historically been government based purchases. The Board regards this change in the mix of business as positive as we have more control over the areas of Managed Services and Projects – both of which are higher margin constituent parts of the business – than we do over the predominantly supplier-led sales of the lower margin license sales.

As a Company, we look forward to updating shareholders further as the year progresses.



Barrie Clark, Chairman
30 March 2011

Statement by the Managing Director

As mentioned in our Chairman's statement, 2010 saw considerable growth in the 'Managed Services' side of the business, but what is our Managed Services business and how does it differ, if at all, from say 'The Cloud' or 'SaaS' (Software as a Service) and why are we experiencing the growth?

Well the important word is 'Managed' – it is not just hosting or monitoring of hardware or the renting out of processing power in an 'on-demand' fashion (the so called Cloud), in fact quite a few of our contracts have no hardware aspect to them at all.

Nor is it SaaS which is generally regarded as a mass market tool which allows a large number of businesses to run a particular broadbased software application, which may or may not allow some tailoring of fairly fixed parameters. Our Managed Service starts from the client's requirements and is built around our three offerings of Portals, Content & Document Management and Analytics . It is very solutions focused and bespoke (to use an old fashioned word) to the needs and circumstances of the client.

Let's start with the hardware platform that the application will run on – we do host and manage platforms utilising both real and 'Virtual' platforms but, if required, we can just as easily manage the platform remotely either in a hosting location of the client's choice or their own premises through the use of Virtual Private Network technology (VPN's). We can build (and have built) the platform inclusive of firewalls and network infrastructure, load with the application and ship to other locations around the world. Having installed it we will then manage and monitor the end to end service on a 24 by 7 basis through VPN's.

So what are the applications that are so important to our clients and producing growth for us?

Portals

A good example of this is The ICE Organisation.

In the case study further on in this report we show how we designed, developed and deployed a portal application with intricate links back to ICE's partners. As this is a consumer facing application, it is important to the client that the site has high availability.

However, this is not enough, they need to know that it is running correctly and we therefore monitor certain aspects

of the application to ensure this is so as the web is the main commercial touch-point with their customer base.

Content and Document Management

Some of our clients have a need to centrally store and share documents, and to be able to control access and changes to them – these can be large manufacturing projects – i.e. the design of a plane; a complex commercial legal case which can generate thousands of documents or civil building projects. One of the difficulties with sizing these types of systems is that no one really knows how many documents will be generated, over what period of time and who/how many people will require access to them.

A Managed Service is the perfect solution to this dilemma and we are able to offer a flexible solution to document

Statement by the Managing Director (Continued)

management and collaboration problems through the use of Virtual Technology that allow the storage and processing utilisation to wax and wane with the clients requirements.

Analytics

This is the area where we have seen the highest level of growth over the last few years. Companies are now swamped with masses of information from various diverse sources, e.g. ERP systems, web based applications and CRM systems.

Volume has brought its own problems in terms of understanding and therefore companies are turning to analytics to analyse and refine data to make sense of it, and to answer the questions they wish to pose.

Through our partnership with SAS (see case study following), we are now able to offer managed services for their customer intelligence products such as Customer Experience Analytics and Marketing Optimisation and Automation. As these products are particularly attractive to financial institutions where security is paramount, IS Solutions applied for, and has gained, accreditation for compliance with the ISO27001 security standard. Last year we were awarded the accolade of SAS hosting partner of the year.

The deployments in the above areas are expensive and it may be that the client is not ready to commit until they are entirely sure that the solutions will work for them, in which case we can run short term POCs (Proof of Concept) in the collaboration or analytics arenas where they may have short to mid-term projects to deal with. If this is the case, we can offer a fully managed service to cope with these requirements.

So what is it that makes us a good partner

It starts from having a deep understanding of the 3 areas in which we operate and then taking that knowledge and being able to overlay it onto our clients' business needs to solve their business issues. We have to be proactive and responsive to changes in requirements and market conditions that affect our clients in order to establish a firm partnership of trust. This trust has been further reinforced by the previously mentioned ISO27001 accreditation.

The IT industry is now a mature industry and for technology companies to succeed they have to apply their technology to solving business problems as opposed to selling technology for the sake of it – look at the confusion that has been caused by "the cloud"! The industry is saying everyone should be in it but there are very few answers at the business level as to what it is, what being in it means and what business issues does it solve?



*John Lythall, Managing Director
30 March 2011*

Case Study – SAS UK Managed Services for Customer Intelligence

SAS is the leader in business analytics software and services and the largest independent vendor in the business intelligence market. Through innovative solutions delivered within an integrated framework, SAS helps customers at more than 50,000 sites improve performance and deliver value by making better decisions faster.

Challenge

SAS' expertise lies in the delivery of its proven analytics software, which helps companies in every industry transform their data into predictive insights about company performance, customers, markets and risks.

SAS UK began to see a growing number of customers seeking to outsource the management of their SAS Solutions. These were varied and multifaceted but all possessed a common need to better serve their customers by concentrating on their primary business. By outsourcing this element of their operations they were able to focus their resources on analysing, interpreting and exploiting the results delivered by the software for business benefit.

SAS UK required alternative deployment approaches, located in the UK, for these customers and sought a partner to manage the hardware environment that its software operates on. IS Solutions provides one approach for SAS to be hosted and managed.

Market overview

The movement towards managed services, Software-as-a-Service and the cloud has gained momentum in recent years, driven by the benefits of improved speed to implementation and lower up-front capital expenditure.

SAS has a range of service options at its disposal, depending on client requirements. These include the use of partners and the variety of infrastructure options on offer from them. This provides maximum reach for SAS and ensures that clients can be placed in the hands of partners who are

skilled in their specific areas, providing a perfect fit with their individual needs.

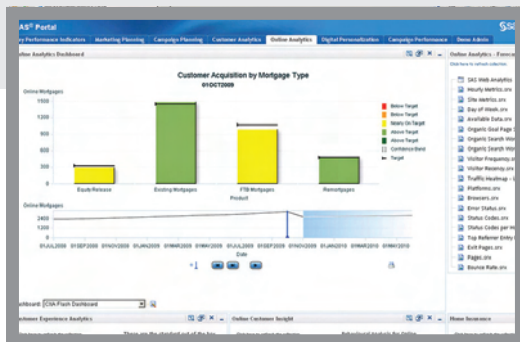
The Customer Intelligence (CI) solutions practice within SAS, for instance, requires that customers are serviced by partners proficient in the varied disciplines of marketing analytics. SAS provides the most comprehensive suite of analytic marketing solutions available, enabling marketing executives to make smarter decisions and solve more business challenges – a comprehensive set of capabilities for a customer-focused marketing process. It is imperative therefore that partners should be able to act as a seamless extension of SAS in terms of delivering the tools for analysing, optimising and managing marketing operations so that the platform is the least of the client's concerns.

SAS has witnessed demand from across industry sectors for this service approach, including clients from financial services, retail and the public sector.

IS Solutions has been a SAS UK Partner since joining the SAS Alliance Reseller Programme in 2007.



SAS was founded in 1976 and achieved revenues in 2010 of \$2.43 billion, making it the largest privately held software company in the world. SAS has more than 11,000 employees operating from 400 offices in 127 countries.



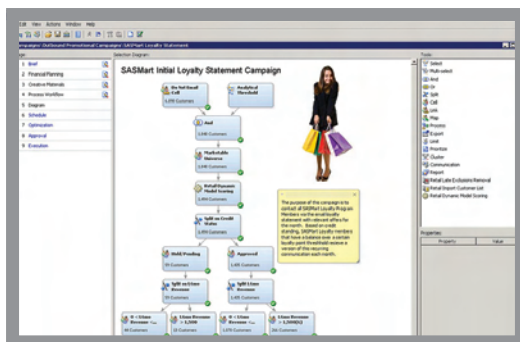
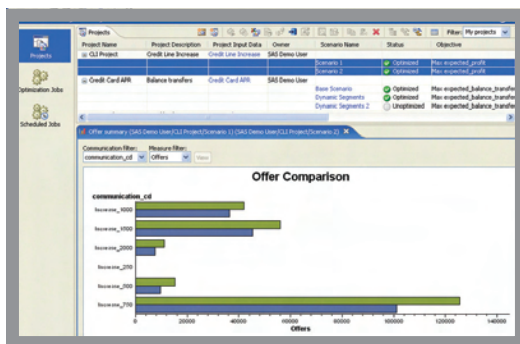
Solution

IS Solutions has a strong heritage in operating managed services, from the delivery of outsourcing and facilities management services early in our history to long-term sophisticated infrastructure management contracts with comprehensive service level agreements. Current managed service implementations employ leading-edge monitoring software to ensure the ongoing health of systems and provide early warnings of potential system issues.

SAS' sophisticated CI product suite requires robust technical architecture that delivers consistently in the areas of performance, availability, resilience and security. IS Solutions worked closely with SAS to ensure that from the vast range of hardware options available, we selected a comprehensive solution that would deliver cost-effectively against all of these necessities and be able to scale as the needs of the customer grew.

Our solution was also designed to allow for rapid take-on of new customers as well as seamless upgrades including temporary platforms for rolling version upgrades. Although this common platform was provided, each customer's subtly different requirements were accounted for by in-built flexibility within the environment.

This enables ongoing service changes to be made to allow for ad-hoc requirements like seasonal peaks in user traffic, increased database allocations and higher bandwidth needs. The environment also allows for the provision of platforms



Above are screenshots showing SAS for Customer Experience Analytics, SAS Marketing Optimisation and SAS Marketing Automation

Case Study – SAS UK Managed Services for Customer Intelligence (Continued)

for testing and training; this ensures that clients are able to maximise their investment in the technology through the development of reports that provide genuine business insight.

Managed service clients could also benefit from an advanced disaster recovery infrastructure that protects their data assets in the unlikely event of a systems failure or catastrophic event. In addition, clients are afforded additional peace of mind through the knowledge that their data is being managed by SAS and IS Solutions, who are both certified to ISO27001: Information Security Management standard.

Dave Annis, Head of Managed Services at SAS UK commented: "We have seen a rapid growth in interest and uptake of analytics, which means more companies requiring SAS' software and services. Some organisations view analytics, and the ability to understand their customers and respond accordingly, as a core internal competency. Some look to SAS to provide a platform upon which to develop that competency and for a partner to help them on that journey, whilst yet others look to outsource their analytics entirely.

SAS aims to support all of these models, whilst focusing on our own area of expertise – the analytics, data management and optimising SAS' software for each customer. Therefore we were looking for a partner who could be relied upon to manage the hosting flawlessly, whilst being flexible enough to handle the variety of service levels that we provide. IS Solutions fits that bill."

IS Solutions was awarded the accolade of SAS Hosting Partner of the Year 2009

Technology at a glance

Key Technologies:

- SAS Customer Intelligence platform products including:
 - SAS for Customer Experience Analytics
 - SAS Marketing Optimisation
 - SAS Marketing Automation
 - SAS Analytics Pro
- Intel-based hardware:
- Windows Server software
- Sun Solaris software
- Network management and monitoring software
- Intrusion detection software

Key Activities:

- Business and technical analysis skills in the specification of each managed service solution.
- Network infrastructure design for the hardware and software environment.
- Project management.
- Ongoing hosting, maintenance and support services.
- Security audits for clients operating in regulated industries.

Case Study – The Ice Organisation

WWW.MYICE.COM

The mission of The Ice Organisation (Ice™) is “to mitigate climate change via mass consumer purchase power.” Designed to fulfil this mission, Ice is a new, flexible loyalty programme which rewards consumers with Ice points for choosing to buy sustainable products and services. Ice has built a network of retailers offering sustainable alternatives to everyday products and services. Unlike conventional rewards programmes though, customers can collect and spend their Ice points on the same retailers and products.

Challenge

As a newly launched company, The Ice Organisation required an entire website infrastructure upon which to base its online business. The clearly articulated business concept around Ice, however, was the perfect foundation for the design and development of all that was required for the launch of the rewards programme; this included a creative site design, a functional site underpinned by a performant and user-friendly content management system and a comprehensive analytics solution to better understand site and user activity – all deployed on a fully supported and hosted environment.

The launch needed to take place rapidly, to ensure that the programme was in a position to commence generating revenue as quickly as possible. The infrastructure had to be cost-effective but meet the combined requirements of being robust, scalable and secure. Ease of integration of new programme partners was also a key consideration since, to a great extent, the success of the programme depended on attracting a wide range of retailers from small businesses to national brands, all offering products and services designed to appeal to Ice's target demographics.

Market overview

Ice is the first such programme of its kind. One factor that differentiates Ice from its competitors is the online redemption process of the Ice currency; it enables consumers to spend spontaneously and to redeem any number of Ice points for a discount off the partner's checkout or to get the item free. This process was developed by Ice in conjunction with IS Solutions and a worldwide patent is in progress to protect this unique solution.

Other established rewards programmes exist of course, but none has structured the currency in the same way as Ice to deliver the same benefits to consumers nor do they demonstrate to the same extent the green credentials of Ice. This gave Ice a compelling public relations opportunity and extensive coverage was sought, and achieved, across the national media. For that reason, Ice's online presence, www.myice.com, was equally geared towards delivering a strong first impression, a memorable user experience and, along with the publicity, to providing a strong reflection of the strengthening Ice brand.

Case Study – The Ice Organisation (Continued)

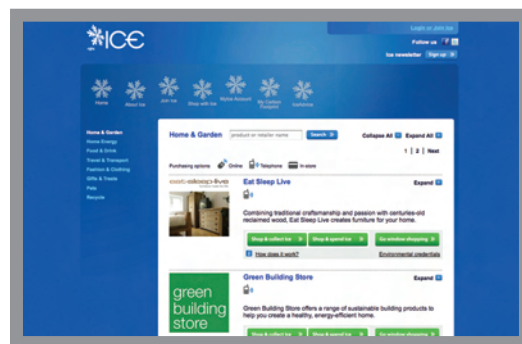
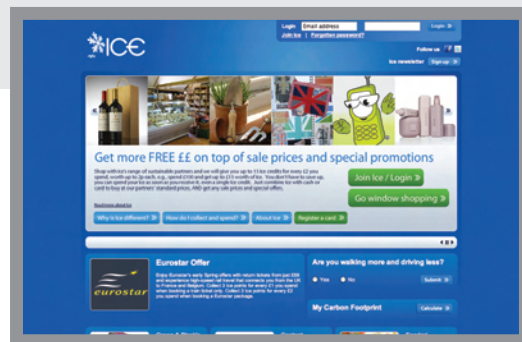
The Ice business structure includes an advisory panel of global experts in climate change and environmental issues which offers practical advice and guidance on partner selection criteria and programme framework.

Solution

IS Solutions was successful in winning a competitive tender for the delivery of the www.myice.com online presence. This success was based on IS Solutions' experience of undertaking multi-faceted projects of this type to other high-profile, long-term clients along with our proven ability to deliver a personal and responsive service to clients. After a period of requirements analysis, which also included defining the creative elements of the site, a joint design and development project was initiated.

The site was based on an EPiServer content management platform which enabled user-friendly publishing of content by non-technical users. IS Solutions developers extended this functionality with customised administration controls and also optimised the site for reporting, satisfying a key Ice requirement to have a comprehensive understanding of user activity and site performance. Further custom development was carried out to support the highly transactional nature of the site, enhancing performance and delivering the best possible user experience. Since this initial site development, www.myice.com has also been migrated twice to newer versions of EPiServer's CMS. In addition, social networking tools to increase audience reach and enhance loyalty have also been incorporated into the site.

Speed-Trap was used to underpin the performance of the site with accurate and in-depth analytics. Initially, the interest for Ice was in monitoring the post-launch growth of user sessions for reporting against forecasts and planning future activity. This extended to intelligence on transactions and, in particular, the most popular vendors.



Above are screenshots from the Myice website showing the Home page, Ice partners and My Carbon Footprint calculator pages.



IS Solutions has worked with The Ice Organisation since 2007, providing a full range of services to support the launch and growth of the business.

Further exploration of Speed-Trap data has been carried out with SAS Analytics Pro desktop software. This has enabled business users within Ice to access, manipulate and aggregate data for deeper insight into areas such as the most popular products available on www.myice.com.

This strategic focus on campaign performance is now being extended through the use of SAS Marketing Automation. SAS Marketing Automation is a comprehensive solution to plan, test and execute marketing campaigns to improve marketing efficiency and effectiveness. By increasing retention and driving higher rates of new customer acquisition, it can help achieve a better return on investment from marketing activities. Ice will use SAS Marketing Automation to further grow the popularity of the rewards programme among new joiners and to better target promotions to existing customers based on profiles of their activities and preferences.

Jayne Lee, IT Director of The Ice Organisation, commented: "After receiving responses from a variety of companies offering business analytics solutions, Ice selected SAS Marketing Automation due to the impressive suite of easy-to-use tools for non-technical staff and the power of its analytical processing capability. This will enable Ice to understand the key business drivers which will be a key element of our business planning process and will be used to enhance and personalise our marketing initiatives both online and offline."

Technology at a glance

Key Technologies:

- EPIServer CMS for website content management.
- Speed-Trap for online customer insight.
- SAS Analytics Pro for data manipulation and analysis.
- SAS Marketing Automation for improving campaign effectiveness.

Key Activities:

- Business analysis in defining the technology strategy, requirements and specification.
- Creative design & information architecture definition.
- Project management.
- Data analysis and delivery.
- Ongoing infrastructure management, support and maintenance.

Corporate Governance

Statement by the Directors on compliance with the Combined Code

The Group is committed to the principles of Corporate Governance contained in the 2008 Combined Code which was issued by the Financial Reporting Council ("the Code") and for which the Board is accountable to shareholders. This statement of Corporate Governance, together with the Report on Directors' Remuneration explains how the Group has applied the principles set out in Section 1 of the Code. The Group is also aware of the issue of the 2010 code in May 2010 and applying to financial years beginning on or after 29 June 2010. The Group will review this in preparation for 2011 to ensure it maintains compliance where appropriate.

The Group throughout the year and to the date of this report complied with the Code provisions set out in section 1 of the 2008 FRC Combined Code save as stated in this report.

- For the year under review the Board considered that the Company is not of sufficient size to warrant a Nominations Committee (A.4.1).
- Not all the non-executive Directors are considered to be independent within the provisions of the Code (A.3.2).

A statement of the Directors' responsibilities in respect of the accounts is set out on page 24. Below is a brief description of the role of the Board and its committees, followed by a statement regarding the Group's system of internal financial control.

The Board

The Board comprises four non-executive Directors and three executive Directors and is responsible to shareholders for the proper management of the Group. The non-executive directors are Peter English, Roger McDowell, Michael Tining (Company Secretary) and Barrie Clark, who is chairman of the Board and senior independent director. The terms and conditions of employment of the four non-executive Directors are available on request from the Company Secretary or at the AGM.

The Board met 11 times with all Directors in attendance, reviewing trading performance, setting and monitoring strategy, and examining major capital expenditure and acquisition opportunities. A procedures manual for Directors and senior managers has been adopted which reserves decisions on specific matters to the Board, which include strategic matters and approval of annual plans or variations thereto. All Directors have access to the advice and services of the Company Secretary.

Audit Committee

The Audit Committee comprises four non-executive Directors of the Company, Barrie Clark, Michael Tining, Peter English and Roger McDowell. The committee is chaired by Barrie Clark, met twice with all members in attendance, and operates under formal terms of reference, which are available on request from the Company Secretary or at the AGM. The committee provides a forum for reporting by the Group's auditors. By invitation, the meetings are also attended by the managing director of the Company and the financial controller.

The Audit Committee is responsible for reviewing a wide range of financial matters including ensuring that the financial performance of the Group is adequately measured and controlled, correctly represented, reported to and understood by the Board. The Audit Committee advises the Board on the appointment of external auditors and on their remuneration, both for audit and non-audit work, and discusses the nature and scope of their audit.

The Audit Committee meets the auditors at least once a year without any executive Directors present.

The Audit Committee is required to include one financially qualified member as recognised by the Consultative Committee of Accountancy Bodies. Currently the Audit Committee Chairman fulfils this requirement. All Audit Committee members are expected to be financially literate. The Committee has considered the likelihood of a withdrawal of the auditor from the market and noted that there are no contractual obligations to restrict the choice of external auditors. Following the above, the Audit Committee has recommended to the Board that RSM Tenon Audit Ltd. is re-appointed.

Corporate Governance (Continued)

Remuneration Committee

The Remuneration Committee comprises four non-executive Directors, Barrie Clark, Michael Tinling, Peter English and Roger McDowell and is chaired by Barrie Clark. The Committee met once with all members in attendance and operates under formal terms of reference, which are available on request from the Company Secretary or at the AGM. It is responsible for reviewing and determining the policy of the Group on executive remuneration including specific remuneration packages for each of the executive members of the Board, pension rights and compensation payments. The Committee is also responsible for monitoring compliance with the implementation by the Company, so far as is reasonably practical, of the recommendations and guidelines of legal and other requirements in relation to Directors' remuneration.

The Board's report to shareholders on how Directors' are remunerated together with details of the individual Directors' remuneration packages is to be found on page 19.

Internal controls

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness which, by its nature, can only provide reasonable and not absolute assurance against material misstatement or loss regarding:

- i) the safeguarding of assets against unauthorised use or disposition; and
- ii) the maintenance of proper accounting records and the reliability of financial information used with the business or for publication

The Board has reviewed the effectiveness of the Group's internal control systems from the period 1 January 2010 to the date of approval of these financial statements. The Board reviews the effectiveness of its control assessment system on a regular basis. The Board also ensures that it accords with the revised guidance within the combined code. Given the current size of the Group, the Directors consider that an internal audit function would not be appropriate, however this matter is kept under review.

The Board has established procedures which are designed to provide effective internal control for the Group and these include:

Control Environment and Procedure

The Directors have in place an organisational structure with clearly defined levels of responsibility and delegation of authority. Group policies and procedures are set out in formal procedure manuals which are held by all operating companies. These include annual budgets, detailed review and appraisal procedures, designated levels of authority and levels for board approval. In particular, there are clearly defined guidelines for the review and approval of capital expenditure projects and, where appropriate, due diligence work will be carried out when a business is to be acquired.

It is Board policy that executive Directors receive suitable training for their position, which is considered as part of the appraisal process.

The Directors and operating Company management meet on a regular basis to communicate the Group's commitment to professionalism and competence.

A formal whistle-blowing policy is in place and is communicated to employees via an employee manual.

Corporate Governance (Continued)

The Board annually reviews the effectiveness of itself, its committees and the individual Directors in the following manner:

- (i) The Role of the committees is considered by the executive Directors without the presence of the non-executive Directors.
- (ii) The Chairman and Managing Director examine the contribution and effectiveness of the individual Directors with regard to their line role and contribution at Board meetings.
- (iii) The whole Board examines its purpose and effectiveness with regard to identified key areas.

Auditor Independence

The Board has considered the issue of external auditor independence and is satisfied that independence has been maintained. Audit Committee approval is required before the external auditor may perform any non-audit work.

Risk Management

The Directors and operating Company management have a clear responsibility for identifying risks facing each of the businesses and for putting in place procedures to mitigate and monitor risks. Risks are formally assessed during the annual budget process, which is monitored by the Board, and the ongoing Group strategy process. During the current turbulent economic times there has been (and continues to be) particular focus on credit worthiness of clients and, although the Company has a strong balance sheet, on cash flow.

Investor Relations

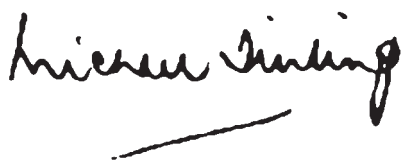
Investor relations are managed mainly through the Annual General Meeting of the Company and on an ad hoc basis through enquiry from investors of the Directors of the Company. The Company encourages two-way communications with both its institutional and private shareholders and responds quickly to all queries received. The executive Directors hold regular meetings with major shareholders, and provide feedback of these meetings to the rest of the Board, including non-executive Directors, to inform them of the views of the major shareholders.

Financial Reporting

The Group has a comprehensive system of financial reporting. There is a detailed budgeting system in place which includes the plan of each operating Company being approved by the executive Directors and the Board approves the overall Group budget. On a monthly basis, actual results are reported against budget and any significant adverse variances examined and remedial action taken.

Revised forecasts for the year are prepared each quarter. Rolling quarterly cash forecasts are prepared on a monthly basis.

On behalf of the Board



Michael Tinling LLb, Company Secretary
30 March 2011

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010. The Corporate Governance Statement set out on pages 12 to 14 forms part of this report.

Principal Activity

The Group is principally engaged in the distribution, design, installation and support of computer hardware and software systems. IS Solutions Plc is a company incorporated in the United Kingdom under the Companies Act 2006.

Business Review

Group profit (before tax, share based payments, goodwill impairment of £29,000 and intangible amortisation of £30,000 (2009: £60,000) rose by 13.98% to £758,000 (2009: £665,000). Reported profit before tax increased to £684,000 (2009: £594,000).

R&D

The Company undertakes R&D into Various technologies to ascertain the viability and usefulness for its client base and to explore new areas of potential business. This work is undertaken at the company's cost. The company has incurred R&D costs of £558k (2009: £496K) in the current year.

Further review and details of future prospects are given in the Chairman's statement and Managing Director's statement. Major Financial Key Performance Indicators (KPI's) (Revenue, Operating profit, Net Profit, etc.) are also reviewed in the Chairman's statement – the Company does not monitor any Non-financial KPI's.

Dividends

The Directors recommend a final dividend of 0.79p per ordinary share to be paid on 27 May 2011 to ordinary shareholders on the register on 3 May 2011 which, together with the interim dividend of 0.36p paid on 15 October 2010, makes a total of 1.15p for the year (2009: 1.10p).

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year are shown in note 20. The Company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The percentage of the issued nominal value of the ordinary shares is 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 24. Shares held by the Employee Benefit Trust abstain from voting.

No person has any special rights of control over the Company's share capital and all issued shares are fully paid.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 12.

Under its Articles of Association, the Company has authority to issue 37,500,000 ordinary shares.

Directors' Report (Continued)

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company following such as commercial contracts, bank loan agreements, property lease arrangements and employees' share plans. None of these are considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, the Directors are not aware of any agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above and the risks and uncertainties summarised below. The Group has sufficient financial resources to cover budgeted future cash-flows. The company also has contracts in place with a number of customers and suppliers across different geographic areas and industries. As a consequence these factors, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

In accordance with the Corporate Governance requirements, having reviewed the future plans and projections for the business, the Directors believe that the Company and its subsidiary undertakings 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 financial statements.

Principal Risks and Uncertainties

Outside of the normal economic and commercial risks facing any UK based business the two major risks are:

- Loss of a major client.
- Loss of a relationship with a major supplier.

The Group has specific relationship management in place to mitigate these risks as far as is possible

In the current turbulent economic times there is a greater risk of bad debts and the Group has increased the focus on this area.

Supplier Payment Policy

It is the Company's policy to pay all claims from suppliers according to agreed terms of payment upon receipt of a valid invoice which is materially correct. The Company does not follow a Code on standard payment practice. At 31 December 2010 the Company had 41 days (2009: 32 days) of outstanding liabilities to creditors

Directors and Directors' Interests

The Directors who held office during the year and to the date of signing, unless otherwise stated, were as follows:

BA Clark
PJ Kear
J Lythall
MLS Tinling
JL Dodkins
PD English
RS McDowell

In accordance with the Company's articles of association, PJ Kear and J Lythall will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Directors' Report (Continued)

The Directors who held office at the end of the financial year had the following interests in the ordinary shares of the Company as recorded in the register of Directors' share and debenture interests. At the time of this report there have been no changes to the Directors' shareholdings since the year end.

| | Class of shares | Interest at end of year | Interest at beginning of year or date of appointment |
|-------------|-----------------|-------------------------|--|
| BA Clark | Ordinary 2p | 500,000 | 500,000 |
| JL Dodkins | Ordinary 2p | 366,766 | 366,766 |
| PD English | Ordinary 2p | 634,734 | 500,000 |
| PJ Kear | Ordinary 2p | 1,240,752 | 1,240,752 |
| J Lythall | Ordinary 2p | 2,248,960 | 2,248,960 |
| ML Tinling | Ordinary 2p | 379,725 | 344,659 |
| RS McDowell | Ordinary 2p | 2,850,000 | 2,850,000 |

Details of share options can be found on page 23 .

Substantial Holdings

As far as the Directors are aware, as at 23 March 2010, the only holdings of 3% or more of the Company's issued share capital are the following:

| | Number of ordinary shares | % |
|------------------------|---------------------------|-------|
| Pershing Keen Nominees | 7,567,329 | 30.52 |
| Chase Nominees Limited | 3,512,370 | 14.17 |
| John Lythall Esq | 2,248,960 | 9.07 |
| Mark Boxall Esq | 1,283,532 | 5.18 |
| Mark Ward Esq | 1,283,532 | 5.18 |
| Peter Kear Esq | 1,240,752 | 5.00 |
| Barclayshare Nominees | 912,967 | 3.68 |

Acquisition of the company's own shares

At the end of the year, the Directors had authority, under the shareholders' resolutions of 20 May 2010, to purchase through the market up to 2,470,713 of the Company's shares at a maximum price of 105% of the average middle market quotation for the five business days immediately preceding the date of purchase and a minimum price of 2p per share. This authority expires on the 19 May 2011. No shares were purchased in the year.

Directors' Report (Continued)

Employees

The Group has a policy of offering equal opportunities to employees at all levels in respect of the conditions of work. Throughout the Group it is the Board's intention to provide employment opportunities and training for disabled people and to care for employees who become disabled having regard to aptitude and abilities.

Regular consultation and meetings, formal or otherwise, are held with all levels of employees to discuss problems and opportunities. Information on matters of concern to employees is presented in house.

Treasury Policy

The Group's operations are funded by cash reserves. The Group has taken a mortgage to fund the purchase of its land and building. The policy of the Group is to ensure that all cash balances earn a market rate of interest. Bank relationships are maintained to ensure that sufficient cash and unutilised facilities are available to the Group.

Political and Charitable Contributions

The Group made no political contributions or charitable donations during the year (2009: £nil).

The Company holds Directors and Officers Liability insurance.

Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Company at the date when this report was approved:

- so far as each of the Directors is aware, there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's auditors are unaware; and
- each of the Directors has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

In accordance with Section 489 of the Companies Act 2006, a resolution for the re-appointment of RSM Tenon Audit Ltd. as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



*PJ Kear, Director
Windmill House, 91-93 Windmill Road,
Sunbury-on-Thames, TW16 7EF
30 March 2011*

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the principles relating to directors' remuneration in the Combined Code. As required by the Act, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on certain parts of the Directors' remuneration report and to state whether in their opinion those parts of the report have been properly prepared in accordance with the Accounting Regulations. The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited Information

Remuneration committee

The Remuneration Committee comprises three non-executive Directors, Barrie Clark, Michael Tirling and Peter English, and is chaired by Barrie Clark. The Committee's terms of reference also require it to meet not less than once each year. It is responsible for reviewing and determining the policy of the Group on executive remuneration including specific remuneration packages for each of the executive members of the Board, pension rights and compensation payments. The Committee is also responsible for monitoring compliance with the implementation by the Group, so far as is reasonably practical, of the recommendations and guidelines of legal and other requirements in relation to Directors' remuneration.

None of the Committee has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day-to-day involvement in running the business. The Committee makes recommendations to the board. No Director plays a part in any discussion about his or her own remuneration.

In determining the Directors' remuneration for the year, the Committee consulted Mr. John Lythall (Managing Director) about its proposals.

Remuneration policy

Executive remuneration packages are prudently designed to attract, motivate and retain Directors of the high calibre needed to maintain the Group's position as a market leader and to reward them for enhancing value to shareholders. The performance measurement of the executive Directors and key members of senior management, and the determination of their annual remuneration package are undertaken by the Committee. The remuneration of the non-executive Directors is determined by the Board within limits set out in the Articles of Association.

There are four main elements of the remuneration package for executive directors and senior management:

- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments;
- Share option incentives; and
- Pension arrangements.

The Company's policy is that a substantial proportion of the potential remuneration of the executive directors should be performance related. As described below, executive directors may earn annual incentive payments of up to 40% of their basic salary together with the benefits of participation in share option schemes. The Remuneration Committee is currently not planning any changes to this policy.

Executive directors are entitled to accept appointments outside the Company providing that the Chairman's permission is sought and fees in excess of £20,000 from all such appointments are accounted for to the Company.

Directors' Remuneration Report (Continued)

Basic salary

An executive director's salary is determined by the Committee in March of each year and when an individual changes position or responsibility. In deciding appropriate levels, the Committee considers the Group as a whole and relies on objective research which gives up-to-date information on a comparable group of companies.

In addition to basic salary, the executive directors receive certain benefits-in-kind, principally a car (or car allowance) and private medical insurance.

Annual bonus payments

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters, the Committee takes cognisance of current economic factors and the performance of the Company versus its peers. The bonus scheme for 2011 is set out below. Bonus payments totalling £Nil were provided for in 2010 (2009: £15,000).

If the Company's profit before tax and amortisation of acquired intangible assets ('pre-tax profits') for the current financial year (2011) show an increase of more than 15% over the pre-tax profits for 2010, then each Director will be paid a bonus of £500 for each percentage point of such increase achieved between 16% and 24% and £700 for each percentage point of such increase achieved between 26% and 100%, together with a single bonus payment of £2,500 if an increase of 25% or more is achieved. In addition at each of the milestones of 50% and 100% increase in such profits each Director will be entitled to a bonus of £5,000 to be satisfied by the allotment or transfer of shares to him.

The actual award and payment of these bonuses must be signed off by the Committee and is subject to amendment in the event of any material acquisitions or disposals occurring during the year.

Share options

The executive Directors also have options granted to them under the terms of the Company Share Option Scheme which is open to all employees.

The Company's policy is to grant options to Directors at the discretion of the Committee taking into account individual performance. It is the Company's policy to phase the granting of share options rather than to award them in a single large block to any individual.

The Company does not operate any long-term incentive schemes other than the share option schemes described above. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options. The entitlement of a director to share options is not subject to any performance conditions.

Pension arrangements

Executive Directors are members of the Company pension scheme. The scheme is a Money Purchase Scheme with a linked Life assurance scheme. Other than basic salary, no payments to Directors are pensionable.

To the extent that contributions to the Company scheme are restricted by Inland Revenue limits, the Company contributes 6% of the Director's salary providing the Director contributes a minimum of 4% of his salary. There are no unfunded pension promises or similar arrangements for Directors. There were 4 Directors in the scheme in 2010 (2009: 4).

Directors' Remuneration Report (Continued)



Performance graph

The above graph shows the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Software and Computer services sector also measured by total shareholder return. The FTSE Software and Computer services sector has been selected for this comparison because it is the Board's opinion that it gives a true comparison to its peers.

Directors' contracts

It is the Company's policy that executive Directors should have contracts with an indefinite term providing for a maximum of one year's notice.

Executive Directors

J Lythall, PJ Kear, JL Dodkins and have Directors' service agreements which can be terminated on twelve months notice. These agreements were dated 29 August 1997.

Non Executive Directors

BA Clark MLS Tinling, R McDowell and PD English each have an agreement for 12 months which expires on 7 May 2011. The fees of the non-executive Directors are determined and confirmed by the full board excluding (in each case) the non-executive Director concerned.

In the event of early termination, all the Directors' contracts provide for compensation up to a maximum of basic salary plus benefits for the notice period.

Directors' Remuneration Report (Continued)

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

| | 2010 £000 | 2009 £000 |
|--|--------------|--------------|
| Emoluments | 411 | 406 |
| Money purchase pension contributions | 47 | 34 |
| Total excluding gains on share options | 458 | 440 |
| Gains on exercise of share options | - | - |
| Total | 458 | 440 |

Director emoluments

The remuneration of the individual directors is as follows:

| | Fees/Basic salary £000 | Pension £000 | Benefits £000 | Annual bonus £000 | Total 2010 £000 | Total 2009 £000 |
|-----------------------|------------------------------|-----------------|------------------|-------------------------|-----------------------|-----------------------|
| Executives | | | | | | |
| J Lythall | 125 | 25 | 2 | - | 152 | 139 |
| PJ Kear | 121 | 12 | 1 | - | 134 | 129 |
| JL Dodkins | 95 | 10 | 5 | - | 110 | 113 |
| Non-Executives | | | | | | |
| BA Clark | 21 | - | - | - | 21 | 20 |
| PD English | 14 | - | - | - | 14 | 13 |
| ML Tinling | 14 | - | - | - | 14 | 13 |
| RS McDowell | 13 | - | - | - | 13 | 13 |
| Total | 403 | 47 | 8 | - | 458 | 440 |

Pension costs represent contributions made by the Company to the Group money purchase pension scheme..

Directors' Remuneration Report (Continued)

Directors share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. There were no options exercised during the year by any director.

Details of options for directors who served during the year are as follows:

| | Number at 1.1.09 | Lapsed during year | Granted during year | Exercised during year | Number at 31.12.10 | Option price | Exercisable from | Expiry date |
|------------|---------------------|-----------------------|------------------------|--------------------------|-----------------------|-----------------|---------------------|----------------|
| JL Dodkins | 30,000 | - | - | - | 30,000 | 12.0p | 06.06.2008 | 06.06.2015 |
| | 70,000 | - | - | - | 70,000 | 22.25p | 11.11.2010 | 11.11.2017 |
| | | - | 35,000 | - | 35,000 | 18.5p | 07.01.2013 | 07.01.2020 |
| PJ Kear | 30,000 | - | - | - | 30,000 | 12.0p | 06.06.2008 | 06.06.2015 |
| | 70,000 | - | - | - | 70,000 | 22.25p | 11.11.2010 | 11.11.2017 |
| | | - | 35,000 | - | 35,000 | 18.5p | 07.01.2013 | 07.01.2020 |
| J Lythall | 30,000 | - | - | - | 30,000 | 12.0p | 06.06.2008 | 06.06.2015 |
| | 70,000 | - | - | - | 70,000 | 22.25p | 11.11.2010 | 11.11.2017 |

The market price of the shares at 31 December 2010 was 36.5p (18.5p at 31 December 2009) and the range in the year was 17.66p to 40.8p.

There have been no variations to the terms and conditions or performance criteria for share options during the financial year.

Approval

This report was approved by the Board of directors on 30 March 2011 and signed on its behalf by:



John Lythall, Managing Director

Statement of directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements under IFRSs as adopted by the EU.

Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- ❑ properly select and apply accounting policies;
- ❑ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- ❑ provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- ❑ make an assessment of the Company's ability to continue as a going concern.

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

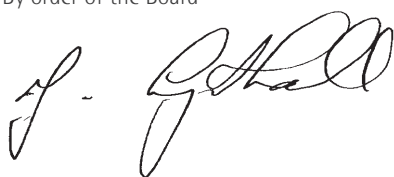
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

We confirm that to the best of our knowledge:

- ❑ the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- ❑ the management report, which is incorporated into the Directors' report and which also references the Chairman and Managing Director's statements, includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



John Lythall, Chief Executive Officer
30 March 2011

Independent Auditors' report to the members of IS Solutions plc

We have audited the financial statements ("the financial statements") of IS Solutions plc for the year ended 31 December 2010 which comprise the consolidated income statement, consolidated and parent company balance sheets, consolidated and parent company statement of changes in equity and consolidated and parent company statements of cash flows, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Sections 495 and 496 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2010 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation..

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' report to the members of IS Solutions plc

(Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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



*Jeremy Filley (Senior Statutory Auditor)
For and on behalf of RSM Tenon Audit Limited
Statutory Auditor
Basingstoke, United Kingdom
30 March 2011*

Consolidated income statement for the year ended 31 December 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|-----------|---------------|---------------|
| Continuing operations | | | |
| Revenue | 3 | 10,981 | 9,783 |
| Cost of sales | | (7,806) | (6,543) |
| Gross profit | | 3,175 | 3,240 |
| Distribution costs | | (1,825) | (1,790) |
| Administration expenses | | (760) | (928) |
| Other operating income | 25 | 88 | 99 |
| Profit from operations | 6 | 678 | 621 |
| Investment revenues | 4 | 5 | 9 |
| Finance costs | 4 | (40) | (14) |
| Other gains and losses | 4 | 41 | (22) |
| Profit before tax | | 684 | 594 |
| Tax | 8 | (65) | (61) |
| Profit for the period attributable to equity holders of the parent/total comprehensive income for the period | 23 | 619 | 533 |
| Earnings per share | | | |
| Basic | 10 | 2.51 p | 2.23 p |
| Diluted | | 2.46 p | 2.22 p |

Consolidated statement of changes in equity for the year ended 31 December 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|-------|---------------|---------------|
| Purchase of own shares | | (13) | (10) |
| Sale of own shares | | 10 | 249 |
| Share-based payments | | 15 | 11 |
| Total income recognised directly in equity | | 12 | 250 |
| Profit for the year/total comprehensive income for the year | | 619 | 533 |
| Dividends paid | 9 | (279) | (238) |
| Change in shareholders' equity for the year | | 352 | 545 |
| Shareholders' equity at start of year | | 3,542 | 2,997 |
| Shareholders' equity at end of year | | 3,894 | 3,542 |

Consolidated balance sheet as at 31 December 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|-------|----------------|----------------|
| Non-current assets | | | |
| Goodwill | 11 | 1,118 | 1,147 |
| Other intangible assets | 12 | - | 30 |
| Property, plant and equipment | 13 | 2,300 | 2,290 |
| Investments | 15 | 200 | - |
| Deferred tax assets | 8 | 47 | 64 |
| Derivative financial instruments | 19 | 18 | 18 |
| | | 3,683 | 3,549 |
| Current assets | | | |
| Investments | 16 | 541 | - |
| Trade and other receivables | 17 | 2,229 | 2,366 |
| Cash and cash equivalents | | 574 | 1,243 |
| | | 3,344 | 3,609 |
| Total assets | | 7,027 | 7,158 |
| Current liabilities | | | |
| Trade and other payables | 18 | (1,667) | (2,019) |
| Tax liabilities | | (56) | (38) |
| Borrowings | 19 | (147) | (143) |
| | | (1,870) | (2,200) |
| Non-current liabilities | | | |
| Borrowings | 19 | (1,263) | (1,410) |
| Deferred tax liabilities | 8 | - | (6) |
| | | (1,263) | (1,416) |
| Total liabilities | | (3,133) | (3,616) |
| Net assets | | 3,894 | 3,542 |
| Equity | | | |
| Share capital | 20 | 496 | 496 |
| Share premium account | 21 | 1,786 | 1,786 |
| Own shares | 22 | (12) | (20) |
| Retained earnings | 23 | 1,624 | 1,280 |
| Attributable to equity holders of the parent | | 3,894 | 3,542 |

These financial statements of IS Solutions plc, registered number 01892751, were approved by the Board of Directors and authorised for issue on 30 March 2011 and were signed on its behalf by



J Lythall, Director

Consolidated cash flow statement for the year ended 31 December 2010

| | 2010 £'000 | 2009 £'000 |
|---|---------------|----------------|
| Operating activities | | |
| Profit from operations | 678 | 621 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 108 | 98 |
| Gain on disposal of property, plant and equipment | - | (3) |
| Amortisation of intangible assets | 30 | 60 |
| Impairment of goodwill | 29 | - |
| Share-based payments | 15 | 11 |
| Operating cash flows before movements in working capital | 860 | 787 |
| Decrease/(increase) in debtors | 137 | (296) |
| (Decrease)/increase in creditors | (352) | 343 |
| Cash generated by operations | 645 | 834 |
| Income taxes paid | (36) | (69) |
| Net cash from operating activities | 609 | 765 |
| Investing activities | | |
| Interest received | 5 | 9 |
| Interest paid | (40) | (14) |
| Purchase of non-current investments | (200) | - |
| Purchase of current investments | (500) | - |
| Purchase of derivative financial instruments | - | (40) |
| Purchase of property, plant and equipment | (118) | (2,254) |
| Proceeds on disposal of property, plant and equipment | - | 10 |
| Acquisition of subsidiaries | - | (298) |
| Net cash used in investing activities | (853) | (2,587) |
| Financing activities | | |
| Dividends paid | (279) | (238) |
| New borrowings | - | 1,600 |
| Repayment of borrowings | (143) | (47) |
| Purchase of own shares (net) | (3) | (7) |
| Net cash (used in)/from financing activities | (425) | 1,308 |
| Net decrease in cash and cash equivalents | (669) | (514) |
| Cash and cash equivalents at start of year | 1,243 | 1,757 |
| Cash and cash equivalents at end of year | 574 | 1,243 |

Company statement of changes in equity for the year ended 31 December 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|---|-------|---------------|---------------|
| Purchase of own shares | | (13) | (10) |
| Sale of own shares | | 10 | 249 |
| Share-based payments | | 15 | 11 |
| Total income recognised directly in equity | | 12 | 250 |
| Profit for the year/total comprehensive income for the year | | 550 | 381 |
| Dividends paid | 9 | (279) | (238) |
| Change in shareholders' equity for the year | | 283 | 393 |
| Shareholders equity at start of year | | 3,319 | 2,926 |
| Shareholders' equity at end of year | | 3,602 | 3,319 |

Company balance sheet as at 31 December 2010

| | Notes | 2010 £'000 | 2009 £'000 |
|----------------------------------|-------|----------------|----------------|
| Non-current assets | | | |
| Goodwill | 11 | 1,018 | 1,018 |
| Investment in subsidiaries | 14 | 385 | 483 |
| Other intangible assets | 12 | - | 30 |
| Property, plant and equipment | 13 | 2,300 | 2,290 |
| Investments | 15 | 200 | - |
| Deferred tax assets | 8 | 47 | 64 |
| Derivative financial instruments | 19 | 18 | 18 |
| | | 3,968 | 3,903 |
| Current assets | | | |
| Trading investments | 16 | 541 | - |
| Trade and other receivables | 17 | 2,229 | 2,366 |
| Cash and cash equivalents | | 574 | 1,243 |
| | | 3,344 | 3,609 |
| Total Assets | | 7,312 | 7,512 |
| Current liabilities | | | |
| Trade and other payables | 18 | (2,244) | (2,596) |
| Tax liabilities | | (56) | (38) |
| Borrowings | 19 | (147) | (143) |
| | | (2,447) | (2,777) |
| Non-current liabilities | | | |
| Borrowings | 19 | (1,263) | (1,410) |
| Deferred tax liabilities | 8 | - | (6) |
| | | (1,263) | (1,416) |
| Total liabilities | | (3,710) | (4,193) |
| Net assets | | 3,602 | 3,319 |
| Equity | | | |
| Share capital | 20 | 496 | 496 |
| Share premium account | 21 | 1,786 | 1,786 |
| Own shares | 22 | (12) | (20) |
| Retained earnings | 23 | 1,332 | 1,057 |
| Total equity | | 3,602 | 3,319 |

These financial statements of IS Solutions plc, registered number 01892751, were approved by the Board of Directors and authorised for issue on 30 March 2011 and were signed on its behalf by



J Lythall, Director

Company cash flow statement for the year ended 31 December 2010

| | 2010 £'000 | 2009 £'000 |
|---|---------------|----------------|
| Operating activities | | |
| Profit from operations | 609 | 429 |
| Adjustments for: | | |
| Depreciation of property, plant and equipment | 108 | 90 |
| Gain on disposal of property, plant and equipment | - | (3) |
| Amortisation of intangible assets | 30 | 90 |
| Impairment of investment in subsidiaries | 98 | - |
| Share-based payments | 15 | 11 |
| Operating cash flows before movements in working capital | 860 | 617 |
| Decrease/(increase) in debtors | 137 | (341) |
| (Decrease)/increase in creditors | (352) | 538 |
| Cash generated by operations | 645 | 814 |
| Income taxes paid | (36) | (69) |
| Net cash from operating activities | 609 | 745 |
| Investing activities | | |
| Interest received | 5 | 9 |
| Interest paid | (40) | (14) |
| Purchase of non-current investments | (200) | - |
| Purchase of current investments | (500) | - |
| Purchase of derivative financial instruments | - | (40) |
| Purchase of property, plant and equipment | (118) | (2,252) |
| Proceeds on disposal of property, plant and equipment | - | 10 |
| Acquisition of subsidiaries | - | (278) |
| Net cash used in investing activities | (853) | (2,565) |
| Financing activities | | |
| Dividends paid | (279) | (238) |
| New borrowings | - | 1,600 |
| Repayment of borrowings | (143) | (47) |
| Purchase of own shares (net) | (3) | (7) |
| Net cash (used in)/from financing activities | (425) | 1,308 |
| Net decrease in cash and cash equivalents | (669) | (512) |
| Cash and cash equivalents at start of year | 1,243 | 1,755 |
| Cash and cash equivalents at end of year | 574 | 1,243 |

Notes to the financial statements

1. Significant accounting policies

Basis of preparation

(IFRS). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The presentation currency of the financial statements is British Pounds and they are rounded to the nearest thousand pounds.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out above and the risks and uncertainties summarised below. The Group has sufficient financial resources to cover budgeted future cash-flows, together with contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

In accordance with the Corporate Governance requirements, having reviewed the future plans and projections for the business, the Directors believe that the Company and its subsidiary undertakings 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 financial statements.

Adoption of new and revised standards

Standards, amendments and interpretations effective in the period to 31 December 2010:

| | |
|--------|--------------------------------------|
| IFRS 2 | Share Based Payments |
| IFRS 8 | Operating Segments |
| IAS 1 | Presentation of Financial Statements |
| IAS 7 | Statement of Cashflows |
| IAS 36 | Impairment of Assets |

Standards, amendments and interpretations that became effective in 2010 but have no effect on the Group's operations:

| | |
|----------|--|
| IFRS 5 | Non-current Assets Held For Sale and Discontinued Operations |
| IAS 17 | Leases |
| IAS 39 | Financial Instruments: Recognition and Measurement |
| IFRIC 8 | Scope of IFRS2 |
| IFRIC 11 | IFRS 2 - Group and Treasury Share Transactions |

Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group:

| | |
|----------|---|
| IAS 32 | Financial instruments presentation |
| IFRS 1 | First-time Adoption of IFRS |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments |
| IFRIC 14 | IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |
| IAS 24 | Related Party Disclosures |

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

Notes to the financial statements (Continued)

Basis of consolidation

The group accounts consolidate the accounts of IS Solutions Plc and all its subsidiary undertakings. These accounts are made up to 31 December 2010.

In the company's accounts, investments in subsidiary undertakings are stated at cost less provisions for impairment.

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

In accordance with Section 408 of the Companies Act 2006 IS Solutions Plc is exempt from the requirement to present its own income statement and related notes that form a part of these approved financial statements. The profit of the parent is disclosed in note 23.

Property, plant and equipment

The value of these assets is stated at cost, less accumulated depreciation and any impairment loss. Freehold land is not depreciated. The estimated lives of assets are reviewed annually by the Board and freehold land and buildings are professionally valued periodically. Lives and values are adjusted as necessary.

The group makes provision for depreciation so that the cost less estimated residual value of each asset is written off by equal instalments over its estimated useful economic life as follows:

| | |
|------------------------|------------------|
| Buildings | - up to 35 years |
| Leasehold improvements | - up to 10 years |
| Fixtures and equipment | - up to 4 years |
| Motor vehicles | - 3 to 4 years |

Acquisitions

On the acquisition of a business net fair values are attributed to the identifiable assets and liabilities acquired. Where the cost of acquisition exceeds this net fair value, the difference is treated as purchased goodwill and capitalised in the Group balance sheet in the year of acquisition. If a subsidiary's assets are subsequently hived up into the parent then the corresponding amount of goodwill is capitalised in the Company balance sheet too.

Goodwill

Capitalised goodwill is shown in the balance sheet. Its carrying value is subject to annual review and any impairment is recognised immediately as a loss which cannot subsequently be reversed. Goodwill arising on acquisitions made before the date of transition to IFRS has been retained at the previous UK GAAP amount subject to being tested annually for impairment.

Other intangible assets

Capitalised contracts

On the acquisition of a business the future value of customer contracts in that business is estimated and capitalised. The fair value is amortised over the average expected life of those contracts.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Profit from operations

Profit from operations is stated after charging restructuring costs but before investment revenue, finance costs and other gains and losses.

Notes to the financial statements (Continued)

Operating leases

Rentals payable under operating leases are recognised as a cost on a straight line basis over the life of the lease. Similarly rental income arising from operating leases is credited to income on a straight-line basis over the period of those leases.

Share-based payments

Periodically the Group offers share options (at the prevailing market price) to all employees. The Group has conformed with the requirements of IFRS2 "Share Based Payment" for share options issued after 7 November 2002 and unvested at 1 January 2009. Those options are measured at fair value (using the Black-Scholes model and management's best estimates) and are expensed on a straight-line basis over their vesting period.

Pension costs

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Research and development

Expenditure on research and development, where it does not meet the criteria for capitalisation set out in IAS 38 "Intangible Assets", is recognised as a cost in the year in which it is incurred.

Taxation

Tax is calculated on the profit for the year (adjusted for appropriate reliefs, allowances, non-deductible expenses and timing differences) at the expected prevailing rate. Deferred tax is recognised (at the current rates of taxation) in respect of all material temporary differences in the treatment of certain items for taxation and accounting purposes which have arisen but have not reversed by the balance sheet date. Recoverable deferred tax is recognised as an asset (at the expected future tax rate) only to the extent that it is probable that taxable profits will be available to utilise it. It is reviewed annually.

Revenue recognition

Products

Products are defined as any item that is bought from an outside supplier and sold on to our clients.

Product sales are invoiced at the time of delivery, and this ordinarily coincides with the point of revenue recognition. However an assessment is made to verify that this is the case.

Services

Development services

Where the Group is contracted to design and implement internet services, all contracts are taken on a time and materials basis with the client being invoiced monthly. Accordingly the Group does not carry any work in progress or accrued income in respect of these services.

Revenue is recognised in accordance with the amounts invoiced. By the nature of the Group's contracts, although these may cover periods of greater than one month, the time and materials basis on which they are negotiated, together with the monthly billing of amounts recoverable, means that revenue is recognised with reference to the stage of completion.

Whilst the relatively straightforward nature of the contractual arrangements described above lends itself to a simple revenue recognition model, IS Solutions' management review contracts on a monthly basis in case any adjustments are required.

Support and maintenance services supplied by the Group

The Group provides ongoing support and maintenance services to customers, ordinarily where we have also developed the site or are hosting or monitoring client sites. Support contracts are normally 12 month contracts and revenue is spread evenly over this period. The provision of these services involves the performance of an indeterminate number of tasks over the period of the contract, as requested by the customer. The pattern of requests is even over time.

Notes to the financial statements (Continued)

Vendor Software Maintenance

This is treated on an agency basis and only the commission from the sale is included in revenue. It is recognised at the point at which it is sold.

Financial Instruments

Financial assets and liabilities are recognised on the balance sheet when the Group or Company becomes a party to the contractual provisions of the instrument.

Derivative financial assets are initially recognised at fair value at the dates the derivative contracts are entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gains or losses are recognised in profit or loss immediately.

Trade receivables do not carry interest and are stated at their cost reduced by an appropriate allowance for irrecoverable amounts.

Trade investments comprise the Group's strategic investments in entities that do not qualify as subsidiaries, associates or jointly controlled entities. They are recognised at cost when acquired. Fluctuations in their fair value are dealt with through profit and loss, as are differences between carrying values and disposal receipts.

Trade payables are not interest bearing and are stated at cost.

Cash and cash equivalents comprise cash in hand and deposits repayable in less than three months, less overdrafts payable on demand.

Equity instruments issued by the Company are recorded as the value of the proceeds received, net of direct issue costs.

Borrowings

Interest bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are amortised over the period in the Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Borrowing costs

Borrowing costs that are directly attributable to the acquisition of a qualifying asset are capitalised as part of property, plant and equipment. Other borrowing costs are recognised as an expense in the period in which they arise.

Company accounts

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by that act these have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted are the same as those set out above in respect of the Group.

Notes to the financial statements (Continued)

2. Critical accounting judgements and key sources of estimation uncertainty

In applying the accounting policies described in note 1, the directors are required to make judgements about, and estimates of the carrying values of assets and liabilities where for reasons of uncertainty these may differ from their book values. These judgements are reviewed on an ongoing basis.

Critical judgements in applying the Group's accounting policies

Goodwill

The ongoing valuation of goodwill for the purposes of determining impairment requires the evaluation of future cash flows from the cash generating units to which the goodwill has been allocated. Note 11 shows the carrying values of the components of goodwill.

3. Revenue

| | Group | |
|------------------------------|---------------|---------------|
| | 2010 £'000 | 2009 £'000 |
| Analysis of revenue | | |
| Continuing operations | | |
| Sale of goods | 4,703 | 3,328 |
| Rendering of services | 6,278 | 6,455 |
| | 10,981 | 9,783 |
| Other operating income | 88 | 99 |
| Investment income | 5 | 9 |
| | 11,074 | 9,891 |

4. Investment income, finance costs and other gains and losses

| | Group | |
|--|---------------|---------------|
| | 2010 £'000 | 2009 £'000 |
| Analysis of investment income | | |
| Bank interest received | 5 | 9 |
| Analysis of finance costs | | |
| Mortgage interest paid | (40) | (14) |
| Analysis of other gains and losses | | |
| Fair value adjustment of derivative financial instrument | - | (22) |
| Profit on revaluation of current investments | 41 | - |
| | 41 | (22) |

Notes to the financial statements (Continued)

5. Business and geographical segments

The Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Chief Executive to allocate resources to the segments and assess their performance. The Group has one reportable segment.

The information presented to the Chief Executive for the purpose of resource allocation and assessment of segment performance is focused on the type of product sold. The principal activity of the Group reported to the Chief Executive is split into three categories of product sold:

- License sales
- Project work
- Recurring revenues

No allocation of other income and costs to these categories is made because the Directors consider that any such allocation would be arbitrary. Any allocation of assets and liabilities to these categories would also be arbitrary.

| Continuing operations 2010 | Licence sales | Project work | Recurring revenues | Total £'000 |
|--|----------------------|---------------------|-------------------------------|------------------------|
| External sales | 4,609 | 2,421 | 5,345 | 12,375 |
| Adjustment for agency basis | (596) | - | (798) | (1,394) |
| Reported revenue | 4,013 | 2,421 | 4,547 | 10,981 |
| Segment result (gross profit) | 562 | 751 | 1,862 | 3,175 |
| Other operating costs and income | | | | (2,497) |
| Investing and financing activities | | | | 6 |
| Profit before tax | | | | 684 |
| Major customers (over 10% of revenue) | | | | |
| Customer 1 | - | 1,024 | 1,169 | 2,193 |
| Customer 2 | 1,906 | - | 30 | 1,936 |
| Customer 3 | 1,157 | 101 | 22 | 1,280 |
| Continuing operations 2009 | Licence sales | Project work | Recurring revenues | Total £'000 |
| External sales | 3,326 | 2,895 | 4,044 | 10,265 |
| Adjustment for agency basis | - | - | (482) | (482) |
| Reported revenue | 3,326 | 2,895 | 3,562 | 9,783 |
| Segment result (gross profit) | 532 | 1,100 | 1,608 | 3,240 |
| Other operating costs and income | | | | (2,619) |
| Investing and financing activities | | | | (27) |
| Profit before tax | | | | 594 |
| Major customers (over 10% of revenue) | | | | |
| Customer 1 | - | 950 | 1,520 | 2,470 |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1.

Geographical segments

The Group operates entirely within the UK.

Notes to the financial statements (Continued)

6. Profit from operations

| | 2010 | 2009 |
|---|-------|-------|
| | £'000 | £'000 |
| Profit from operations has been arrived at after charging/(crediting): | | |
| Research and development costs | 558 | 496 |
| Net foreign exchange gains | (3) | (23) |
| Depreciation of property, plant & equipment | 108 | 98 |
| Gain on disposal of property, plant & equipment | - | (3) |
| Amortisation of intangible assets | 30 | 60 |
| Impairment of goodwill | 29 | - |
| Staff costs (see Note 7) | 3,937 | 4,163 |
| Auditors' remuneration for audit services (Group and Company, the Company fee is not separately quantifiable) | 26 | 37 |
| Auditors' remuneration for tax compliance and advisory services | 4 | 5 |

7. Staff costs

The average number of employees (including directors)

during the year was:

| | Group | | Company | |
|----------------|-----------|-----------|-----------|-----------|
| | 2010 | 2009 | 2010 | 2009 |
| Sales | 13 | 12 | 13 | 11 |
| Engineering | 55 | 60 | 55 | 57 |
| Administration | 13 | 15 | 13 | 15 |
| | 81 | 87 | 81 | 83 |

Their aggregate remuneration comprised:

| | £'000 | £'000 | £'000 | £'000 |
|-----------------------|--------------|--------------|--------------|--------------|
| Salaries | 3,303 | 3,514 | 3,303 | 3,245 |
| Social security costs | 354 | 378 | 354 | 348 |
| Pension costs | 280 | 271 | 280 | 236 |
| | 3,937 | 4,163 | 3,937 | 3,829 |

Details of directors' remuneration required by the Companies Act are set out in the audited information included in the directors' remuneration report. For the purposes of IAS 24 "Related Party Disclosures" these figures also equate to the salary disclosures required of the key management personnel.

Notes to the financial statements (Continued)

8. Tax

| | 2010 | 2009 |
|---------------------------|-----------|-----------|
| | £'000 | £'000 |
| Current tax | 54 | 38 |
| Deferred tax | 11 | 23 |
| UK corporation tax | 65 | 61 |

The charge for the year can be reconciled to the reported profit as follows:

| | | |
|---|-----------|-----------|
| Profit before tax | 684 | 594 |
| UK corporation tax at 28% (2009: 28.5%) | 192 | 166 |
| Research and development credit | (117) | (69) |
| Relief for exercising of share options | (7) | (1) |
| Writing-down allowances in excess of depreciation | (17) | (22) |
| Amortisation of intangibles | 8 | 17 |
| Impairment of goodwill | 8 | - |
| Other non-deductible expenses | 10 | 12 |
| Other timing differences | 9 | - |
| Lower rate relief | (21) | (42)) |
| Tax charge/(credit) as above | 65 | 61 |

Deferred tax asset/(liability)

| | Intangibles | Timing differences | Total |
|-------------------------------------|-------------|--------------------|-----------|
| | £'000 | £'000 | £'000 |
| Group at 1 January 2009 | (18) | 99 | 81 |
| Credit/(charge) to income statement | 12 | (35) | (23) |
| Group at 31 December 2010 | (6) | 64 | 58 |
| Credit/(charge) to income statement | 6 | (17) | (11) |
| Group at 31 December 2010 | - | 47 | 47 |
| Company at 1 January 2009 | - | 99 | 99 |
| On hive-up of subsidiary assets | (6) | - | (6) |
| Charge to income statement | - | (35) | (35) |
| Recognition of deferred tax asset | - | - | - |
| Company at 1 January 2010 | (6) | 64 | 58 |
| Charge/(credit) to income statement | 6 | (17) | (11) |
| Group at 31 December 2010 | - | 47 | 47 |

Notes to the financial statements (Continued)

9. Dividends

| | 2010 | 2009 |
|--|------------|------------|
| | £'000 | £'000 |
| Amounts recognised as distributions to equity holders | | |
| Final dividend for the year ended 31 December 2009 of 0.77p (2008: 0.67p) | 190 | 158 |
| Interim dividend for the year ended 31 December 2010 of 0.36p (2009: 0.33p) | 89 | 80 |
| | 279 | 238 |
| Proposed final dividend for the year ended 31 December 2010 of 0.79p | 196 | |

The proposed final dividend is subject to shareholders' approval at the AGM and has not been included as a liability in these financial statements.

10. Earnings per share

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Earnings, being the net profit attributable to equity holders of the parent (£'000) | 619 | 533 |
| Weighted average of ordinary shares in issue | 24,793,190 | 24,793,190 |
| Weighted average of own shares | (137,962) | (932,922) |
| Weighted average for the purpose of basic earnings per share | 24,655,228 | 23,860,268 |
| Effect of dilutive share options | 516,795 | 126,378 |
| Weighted average for the purpose of diluted earnings per share | 25,172,023 | 23,986,646 |

11. Goodwill

| | Group | | Company | |
|---------------------------------------|--------------|--------------|--------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Cost of goodwill | | | | |
| At 1 January | 3,274 | 2,730 | 2,930 | 2,012 |
| Recognised on hive-up of subsidiary | - | - | - | 918 |
| Additions | - | 544 | - | - |
| At 31 December | 3,274 | 3,274 | 2,930 | 2,930 |
| Accumulated impairment charges | | | | |
| At 1 January | 2,127 | 2,127 | 1,912 | 1,912 |
| Impairment charge for the year | 29 | - | - | - |
| At 31 December | 2,156 | 2,127 | 1,912 | 1,912 |
| Carrying amount at 31 December | 1,118 | 1,147 | 1,018 | 1,018 |
| Allocation of goodwill | | | | |
| AXL customers | 100 | 100 | 100 | 100 |
| Candric customers | 100 | 129 | - | - |
| Chapter26 customers | 918 | 918 | 918 | 918 |
| At 31 December | 1,118 | 1,147 | 1,018 | 1,018 |

The carrying amount of goodwill represents the balance of the original cost of goodwill attached to the subsidiary companies on acquisition. The Group is required to test this value at least annually for impairment. The still extant customers of each of these subsidiaries (all of whom are now customers of the parent company) continue to form identifiable cash generating units.

Notes to the financial statements (Continued)

The recoverable amounts of the cash generating units are determined from the value in use calculations. The Group prepares profit forecasts derived from the most recent budgets and forecasts approved by the Board. A range of comparable discount rates from 9% to 21% has been used to discount the forecast profits over the next three years. The calculation of value in use is most sensitive to the discount rate and management assumption that majority of these revenues are recurring on an annual basis. Management believes that no reasonable potential change in any of the above key assumptions would cause the carrying value to exceed its recoverable amount except in the case of the old Candric customers where, because of diminishing revenues, a further impairment charge of £29,000 has been made to administration expenses.

The trade and net assets of Chapter26 Ltd were hived up to the parent company in 2009. The book values of the assets and liabilities, which the Directors also believe to be the fair values were as follows:

| | 2010 £'000 | 2009 £'000 |
|------------------------------------|---------------|---------------|
| Tangible fixed assets | - | 13 |
| Trade and other receivables | - | 305 |
| Cash and cash equivalents | - | 20 |
| Trade and other payables | - | (255) |
| Future value of acquired contracts | - | 120 |
| Deferred tax liability | - | (24) |
| Tax liability | - | (83) |
| Net assets acquired | - | 96 |
| Goodwill | - | 918 |
| Consideration | - | 1,014 |
| Satisfied by: | | |
| Brought forward investment cost | - | 470 |
| Cash | - | 298 |
| Transfer of own shares | - | 246 |
| | - | 1,014 |

During that year, an earn-out payment of £544,000 was made to the vendors of Chapter26 Ltd as a result of the achievement of agreed profit targets in the twelve months following the acquisition..

The goodwill of £918,000 arose as a result of the hive-up..

Notes to the financial statements (Continued)

12. Other intangible assets

| | Group | | Company | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Capitalised contracts | | | | |
| At 1 January | 120 | 120 | 120 | 120 |
| Expired | (120) | - | (120) | - |
| At 31 December | - | 120 | - | 120 |
| Accumulated amortisation | | | | |
| At 1 January | 90 | 30 | 90 | - |
| Amortisation for the year | 30 | 60 | 30 | 90 |
| Expired | (120) | - | (120) | - |
| At 31 December | - | 90 | - | 90 |
| Carrying amount at 31 December | - | 30 | - | 30 |

The carrying amount of capitalised contracts represents the amortised value of customer contracts acquired with Chapter26 Ltd. The Board considers that the future amortisation costs will be fully absorbed by ongoing revenues from those customers.

13. Property, plant & equipment

| Group | Land & buildings | Fixtures & equipment | Motor vehicles | Total |
|----------------------------|------------------|----------------------|----------------|--------------|
| Cost | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2009 | - | 370 | 79 | 449 |
| Additions | 2,224 | 30 | - | 2,254 |
| Disposals | - | (49) | (28) | (77) |
| At 1 January 2010 | 2,224 | 351 | 51 | 2,626 |
| Additions | - | 118 | - | 118 |
| Disposals | - | (58) | (13) | (71) |
| At 31 December 2010 | 2,224 | 411 | 38 | 2,673 |
| Depreciation | | | | |
| At 1 January 2009 | - | 263 | 45 | 308 |
| Charge for year | 15 | 71 | 12 | 98 |
| Eliminated on disposals | - | (49) | (21) | (70) |
| At 1 January 2010 | 15 | 285 | 36 | 336 |
| Charge for year | 45 | 57 | 6 | 108 |
| Eliminated on disposals | - | (58) | (13) | (71) |
| At 31 December 2010 | 60 | 284 | 29 | 373 |
| Carrying amount | | | | |
| At 31 December 2009 | 2,209 | 66 | 15 | 2,290 |
| At 31 December 2010 | 2,164 | 127 | 9 | 2,300 |

Notes to the financial statements (Continued)

| Company | Land & buildings | Fixtures & equipment | Motor vehicles | Total |
|-------------------------------------|------------------|----------------------|----------------|--------------|
| Cost | £'000 | £'000 | £'000 | £'000 |
| At 1 January 2009 | - | 340 | 79 | 419 |
| Recognised on hive-up of subsidiary | - | 13 | - | 13 |
| Additions | 2,224 | 28 | - | 2,252 |
| Disposals | - | (30) | (28) | (58) |
| At 1 January 2010 | 2,224 | 351 | 51 | 2,626 |
| Additions | - | 118 | - | 118 |
| Disposals | - | (58) | (13) | (71) |
| At 31 December 2010 | 2,224 | 411 | 38 | 2,673 |
| Depreciation | | | | |
| At 1 January 2009 | - | 252 | 45 | 297 |
| Charge for year | 15 | 63 | 12 | 90 |
| Eliminated on disposals | - | (30) | (21) | (51) |
| At 1 January 2010 | 15 | 285 | 36 | 336 |
| Charge for year | 45 | 57 | 6 | 108 |
| Eliminated on disposals | - | (58) | (13) | (71) |
| At 31 December 2010 | 60 | 284 | 29 | 373 |
| Carrying amount | | | | |
| At 31 December 2009 | 2,209 | 66 | 15 | 2,209 |
| At 31 December 2010 | 2,164 | 127 | 9 | 2,300 |

Included in land & buildings is freehold land valued at £700,000 (2009: £700,000) which is not subject to depreciation. The land and buildings were professionally valued at the end of the year: there was no material difference between that valuation and the carrying values.

Freehold land and buildings with carrying values as noted above have been pledged to secure borrowings of the Group (see the borrowings note 19).

Notes to the financial statements (Continued)

14. Investment in subsidiaries

| | Company | |
|---|---------------|---------------|
| | 2010 £'000 | 2009 £'000 |
| Cost of investment | | |
| At 1 January | 907 | 1,377 |
| Additions | - | 544 |
| Realised on hive-up of assets | - | (1,014) |
| At 31 December | 907 | 907 |
| Accumulated provision for impairment | | |
| At 1 January | 424 | 424 |
| Impairment charges for the year | 98 | - |
| At 31 December | 522 | 424 |
| Carrying amount at 31 December | 385 | 483 |

All the subsidiaries are now dormant and the carrying values have accordingly been adjusted to match their underlying reserves, by way of impairment charges as shown above.

| | Country of Incorporation | Proportion of ownership interest |
|--------------------------------|--------------------------|----------------------------------|
| Candric Ltd | England & Wales | 100% |
| Chapter26 Ltd | England & Wales | 100% |
| Interspective Ltd | England & Wales | 100% |
| AXL Performance Solutions Ltd | England & Wales | 100% |
| AXL Business Solutions Ltd | England & Wales | 100% |
| Internet Service Solutions Ltd | England & Wales | 100% |
| Internet Systems Solutions Ltd | England & Wales | 100% |
| Internet Site Solutions Ltd | England & Wales | 100% |
| @NetCity Ltd | England & Wales | 100% |

15. Non-current investments (Group and Company)

| | 2010 £'000 | 2009 £'000 |
|----------------------------|---------------|---------------|
| Trading investments | | |
| Purchases during year | 200 | - |
| Cost at 31 December | 200 | - |

On 25 October 2010 the company purchased 1,034,857 ordinary shares (approximately 3%) in Speed-Trap Holdings Ltd. The company is committed to purchasing a further 2,587,143 shares in 2011 for a consideration of £700,000. During the year Speed-Trap sales to the Group amounted to £210,000, and at the end of the year the Group owed Speed-Trap £119,000.

Notes to the financial statements (Continued)

16. Current investments (Group and Company)

| | 2010 | 2009 |
|------------------------------------|------------|----------|
| | £'000 | £'000 |
| Trading investments | | |
| Purchases during year | 500 | - |
| Movement in fair value during year | 41 | - |
| Fair value at 31 December | 541 | - |

17. Trade and other receivables

| | Group & Company | |
|-------------------|-----------------|--------------|
| | 2010 | 2009 |
| | £'000 | £'000 |
| Trade receivables | 1,998 | 2,102 |
| Other debtors | 21 | 53 |
| Prepayments | 210 | 211 |
| | 2,229 | 2,366 |

| | 2010 | 2009 |
|---|------------|------------|
| | £'000 | £'000 |
| Trade receivables | | |
| Ageing of past due but not impaired receivables | | |
| Overdue 1 month | 119 | 77 |
| Overdue 2 months | 133 | 21 |
| Overdue 3 months and more | 14 | 14 |
| | 266 | 112 |

Trade receivables arise mainly from credit sales. The Board considers that their recoverable value, after considering any credit risk, does not differ materially from their carrying value. In particular those amounts past due are assessed to be fully recoverable and are not considered to be impaired. Balances in foreign currencies at the end of the year totalled £137,000 (2009: £nil). The average credit period taken on sales of goods and services is 53 days (2009: 45 days).

In determining the recoverability of a trade receivable the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required.

18. Trade and other payables

| | Group | | Company | |
|------------------------------|--------------|--------------|--------------|--------------|
| | 2010 | 2009 | 2010 | 2009 |
| | £'000 | £'000 | £'000 | £'000 |
| Trade payables | 781 | 1,069 | 781 | 1,069 |
| Owed to subsidiaries | - | - | 577 | 577 |
| Other taxes payable | 363 | 345 | 363 | 345 |
| Accruals and deferred income | 523 | 605 | 523 | 605 |
| | 1,667 | 2,019 | 2,244 | 2,596 |

Trade payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 41 days (2009: 42 days). Their carrying value approximates to their fair value. Balances in foreign currencies at the end of the year totalled £22,000 (2009: £40,000).

Notes to the financial statements (Continued)

19. Borrowings (Group and Company)

| | 2010 | 2009 |
|------------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Bank mortgage | | |
| Outstanding at 1 January | 1,553 | - |
| New borrowings during year | - | 1,600 |
| Repaid during year | (143) | (47) |
| Outstanding at 31 December | 1,410 | 1,553 |
| Repayable within one year | 147 | 143 |
| Repayable within one to two years | 151 | 147 |
| Repayable within two to five years | 477 | 465 |
| Repayable in more than five years | 635 | 798 |

The fair value of the mortgage approximates its carrying amount. The Group's borrowing is subject to restrictive covenants, including disposal of assets and provision of certain financial information to the bank. Interest is payable at a variable rate 2.1% above base rate.

The Company has subscribed to a base rate cap of 4.5% per annum for a notional loan amount of £1,200,000 reducing over the term of the cap (2010: £1,073,000, 2009: £1,169,000), which expires on 3 September 2014. This base rate cap is a derivative financial instrument classed as fair value through profit or loss with a value of £18,000 (2009: £18,000).

Security for the mortgage comprises a first legal mortgage over the freehold property of IS Solutions plc known as Windmill House 91-93 Windmill Road Sunbury-on-Thames: a direct letter of set-off to be given by IS Solutions plc over its own accounts: a first fixed charge over all book and other debts and a first floating charge over all assets, goodwill, undertaking and uncalled capital both present and future.

20. Share capital

| | 2010 | 2009 |
|---------------------------------------|-------|-------|
| | £'000 | £'000 |
| Authorised | | |
| 37,500,000 ordinary shares of 2p each | 750 | 750 |
| Issued and fully paid up | | |
| 24,793,190 ordinary shares of 2p each | 496 | 496 |

21. Share premium account

| | 2010 | 2009 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Balance at 1 January and 31 December | 1,786 | 1,786 |

22. Own shares

| | 2010 | 2009 |
|-------------------------------|-----------|-----------|
| | £'000 | £'000 |
| Balance at 1 January | 20 | 280 |
| Acquired during the year | 13 | 10 |
| Sold during year | (21) | (270) |
| Balance at 31 December | 12 | 20 |
| Fair value at 31 December | 15 | 19 |

Notes to the financial statements (Continued)

23. Retained earnings

| | Group | | Company | |
|--|---------------|---------------|---------------|---------------|
| | 2010 £'000 | 2009 £'000 | 2010 £'000 | 2009 £'000 |
| Balance at 1 January | 1,280 | 995 | 1,057 | 924 |
| Dividends paid | (279) | (238) | (279) | (238) |
| Loss on sale of own shares | (11) | (21) | (11) | (21) |
| Credit to equity for equity-settled share-based payments | 15 | 11 | 15 | 11 |
| Net profit for the year | 619 | 533 | 550 | 381 |
| Balance at 31 December | 1,624 | 1,280 | 1,332 | 1,057 |

24. Share-based payments

The Company has a share option scheme for all employees of the Group. Options are granted at the closing price on the previous day and have a vesting period of three years. If the options are not exercised within ten years of the grant date, or if employees leave before their options vest then those options are forfeited.

| | 2010 | | 2009 | |
|----------------------------------|----------------------------|-----------------------------------|----------------------------|-----------------------------------|
| | Number of share options | Weighted av. exercise price | Number of share options | Weighted av. exercise price |
| Options outstanding at 1 January | 1,282,500 | 19.46 p | 1,397,500 | 19.39p |
| Granted during the year | 610,000 | 18.50 p | - | - |
| Forfeited during the year | (66,500) | 19.05 p | (75,000) | 22.25p |
| Exercised during the year | (97,000) | 10.14p | (40,000) | 12.00p |
| Outstanding at 31 December | 1,729,000 | 19.66p | 1,282,500 | 19.46p |
| Exercisable at 31 December | 1,159,000 | 20.22p | 332,000 | 11.46p |

The weighted average share price at the exercise date of the exercised shares was 34.0p (2009: 16.6p). The weighted average contractual life of the outstanding options was 7 years (2009: 7 years), exercisable in the range 12.00p to 22.25p.

Options issued during the year (all on 7 January 2010) had a fair value of 2.37p per share (aggregate £14,457) based on Black-Scholes input values: exercise price 18.5p, expected volatility (determined historically over three years) of 30%, expected life of three years, a risk free rate of 0.5% and an expected dividend yield of 5.4%.

The Group recognised £15,000 of expense related to equity-settled share-based payments in 2010 (2009: £11,000).

Notes to the financial statements (Continued)

25. Operating lease arrangements (Group and Company)

| | 2010 | 2009 |
|--|-----------|-----------|
| | £'000 | £'000 |
| As lessee | | |
| The Group has no outstanding operating leases. | | |
| Lease payments recognised as an expense during the year | - | 170 |
| As lessor | | |
| The future aggregate minimum lease payments receivable under non-cancellable operating leases are: | | |
| Due in less than one year | 47 | 96 |
| Due between two and five years | 8 | 116 |
| Lease receipts recognised as income during the year | 88 | 99 |

Lease receipts are for fixed-term sub-lets of parts of the parent company's premises bearing no contractual right of renewal or extension.

26. Financial instruments

Capital risk management

The Group's capital structure comprises issued share capital, reserves and borrowings as disclosed in notes 20, 23 and 19 respectively, along with cash and cash equivalents. These are managed by the Board to ensure that the Group continues as a profitable going concern. There are no externally imposed capital requirements.

| Gearing ratio (at end of year) | 2010 | 2009 |
|---------------------------------------|--------|---------|
| | £'000 | £'000 |
| Debt | 1,410 | 1,553 |
| Cash and cash equivalents | (574) | (1,243) |
| Net debt | 836 | 310 |
| Equity | 3,894 | 3,542 |
| Net debt to equity ratio | 21.47% | 8.75% |

Significant accounting policies

Details for financial instruments are disclosed in note 1.

| Categories of financial instruments | 2010 | 2009 | 2008 |
|---|-------|-------|-------|
| | £'000 | £'000 | £'000 |
| Financial assets | | | |
| Cash and bank balances | 574 | 1,243 | 1,757 |
| Current investments | 541 | - | - |
| Designated fair value through profit and loss | 18 | 18 | - |
| Loans and receivables | 2,229 | 2,366 | 2,070 |
| Financial liabilities | | | |
| Other | 3,133 | 3,610 | 1,764 |

Notes to the financial statements (Continued)

Financial risk management

The Board manages financial risk by means of internal assessment reports. The only significant risk to the business is that of interest rate changes. It is estimated each 1% rise in average interest rates, using consistent estimation methods, would reduce the reported profit before tax by £5,000 (2009: £5,000). The Board has limited this risk by means of an interest rate cap derivative as described in note 19.

Credit risk management

The Group uses credit reference agencies to determine and monitor the credit limits of new and existing customers. At the end of the year three customers owed a total of £650,000 (2009: two customers owed £866,000). No other customers owed more than 10% of the outstanding total. No provision for doubtful debts has been made (2009: nil).

Liquidity risk management

The Board manages liquidity risk by maintaining adequate reserves of cash and banking facilities to cover day to-day trading. The Group's policy is to pay creditors in full as and when they become due, which for all practical purposes is at latest by the end of the month following the invoice date. The Board believe that there is little liquidity risk since the Group has adequate cash balances to satisfy its creditors. Long-term borrowings are secured by way of a mortgage on the freehold property and their repayment schedule is shown in note 19.

Financial facilities

Secured bank overdraft facility (unused)

| 2010 | 2009 |
|-------|-------|
| £'000 | £'000 |
| 500 | 250 |

Fair value measurement

Financial instruments that are measured subsequent to initial recognition at fair value, are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The current trade investment is observable at level 1.

The interest rate cap derivative is observable at level 2.

Solution

** A simple answer or complex combination
such of elements, which when applied,
successfully resolves a problem.*
