# Idox plc

# Annual Report & Accounts 2010

idox

One company: Infinite possibilities

# Contents



idox

One company: Infinite possibilities

# Financial and Operational Highlights

For the year ended 31 October 2010

- **Revenues £31.3m** (2009: £32.2m) **reflecting reduction in the low margin contract recruitment business and benefit of large, one-off project in 2009 financial year, offset by acquisitions**
- **EBITDA increased by 16% to £8.7m** (2009: £7.5m)
- **Normalised pre-tax profit* £8.0m up 21%** (2009: £6.6m)
- **Normalised EPS* increased 16% to 1.75p** (2009: 1.51p)
  **Basic EPS 1.07p** (2009: 1.01p)
- **Profit before tax £4.9m** (2009: £4.5m) **after a higher non-cash amortisation charge related to the acquisitions made during the year**
- **Trebled final proposed dividend to 0.35p** (2009: 0.12p)**, making total for year of 0.45p** (2009: 0.20p)**, 125% increase**
- **£2.0m cash at period end, £0.9m net debt** (2009: £6.9m cash; £3.2m net cash) **after funding £10.6m of acquisitions**
- **Completed and fully integrated three earnings enhancing acquisitions, further boosting revenue visibility and market leading positions**

* Normalised pre-tax profit & EPS excludes amortisation, exceptional restructuring and corporate finance charges and share option costs.

# Chairman's Statement

For the year ended 31 October 2010

Idox is a specialist high end provider of document management, case management, workflow systems, content and related web-based portals. These skills have been successfully applied to the local government domain and are increasingly being developed on a managed or shared service partnership basis with groups of councils to save costs and gain efficiency. The Group is now positioned to apply these skills to wider market sectors.

By the end of 2010, the Group served more than 90% of UK local authorities, with 62% recurring revenues (2009: 55%) and the Group's land & property software solutions business comprises over 60% of installed UK local government planning solutions.

The Group was also bolstered through the acquisition and integration of GRANTfinder, Strand Electoral Management Services and the Local Authority Modernisation Programme (LAMP) long-term managed services contracts with 11 local authorities. These acquisitions enabled the Group to expand into additional managed service agreements, election management software and further grants content. The acquisition of GRANTfinder brings the critical mass required to make the Solutions segment a significant profit generator in forthcoming periods.

The acquisition of j4b Software & Publishing Limited in 2009 had already added an international dimension to our business in Holland and in late 2010 Idox won its first contract in Spain.

The post financial year-end acquisition of McLaren Software, a Glasgow based company with a presence in Germany and Houston, Texas, marks a step in the Group's strategy to provide its document management services to broader public and private markets in the UK and internationally. The acquisition broadens the Group's footprint into McLaren's industrial markets in pharmaceuticals and oil & gas.

The acquisition will also build on the Group's document management systems, workflow and related technology and expertise to expand a development centre of excellence in Scotland and offer this expertise to other markets where Idox can become a technology and market leader.

The Group will continue to identify opportunities to diversify into new geographies and new markets and aims through organic growth, acquisition and expansion outside the UK and public sector to grow its revenue and profits. The Board also continues to buy-back shares to fund share option incentives whilst pursuing its objective of promoting double-digit normalised EPS growth.

**2010 highlights and markets**

The publication of the government's CSR in October 2010 has brought clarity to both central and local government spending plans. As a result the Board is confident that there will be no major adverse impact on software & services expenditure at local government level where it supports efficiencies in areas like planning.

Local government has become increasingly outcomes driven, focused on return on investment and improvements in effectiveness and the maintenance of services to the community. Since the CSR was announced, independent market research company Kable has re-iterated its forecast of modest growth in the local government software and services market for the next three years.

In 2010 the Group passed a further milestone in its development as it diversified beyond its traditional local government client base into wider market sectors.

EBITDA rose 16% despite a 3% fall in revenues, which reflected in part the successful wind down of the large Scottish government planning portal project in the previous financial year.

# Chairman's Statement cont'd

For the year ended 31 October 2010

Operating costs were reduced during the year, even after the acquisitions of LAMP, Strand Electoral Management Services and GRANTfinder. On a like-for-like basis, excluding acquisitions, overheads were £1.5m or 9% lower, as a result of tight cost controls and continued productivity and efficiency gains.

In line with its previously announced policy of accelerating dividend increases, the Board proposes a significant rise in its final dividend to 0.35p per share.

Finally, I would like to thank, on behalf of the Board, all our staff for their skills and dedication as Idox has transformed into a significant provider of profits with a market leading position over the last three years, most of it during a time of great economic uncertainty. Our thanks are also extended to our shareholders who have been so supportive over this period.

**Martin Brooks**
Chairman
25 January 2011

By the end of 2010, the Group served more than 90% of UK local authorities, with 62% recurring revenues (2009: 55%)

# Chief Executive's Report

## For the year ended 31 October 2010

2010 was a challenging year which Idox successfully navigated. The customer base started the year already well advanced in their thinking on the need to cut costs, but uncertain as to the level of savings they would be required to achieve. Despite the uncertainty around the election in May, which distorted first half trading and delivery schedules, as well as the mini budget in July and the CSR in October, the outturn was broadly in line with most authorities' expectations.

Going forward into 2011, Idox's market is already well advanced in its execution and is now making final adjustments. Therefore the Group expects the market for application solutions that deliver a tangible return on investment will grow now from a flat base in 2009/10.

The Software segment managed this change in the market well, ending the year with a strong sales performance. The year closed with a different mix from originally forecast as some major projects were stopped and investment in dashboard productivity solutions was surprisingly weak, but this was offset by strong performance in public access web solutions.

The Software segment had some notable successes in partnering with authorities to build shared service solutions. This approach, plus a more comprehensive offering in managed technical services and outsourcing, delivered tangible improvements in services, cost efficiencies and speed of implementation.

Internally Idox continued to place a strong emphasis on quality and customer care with further improvements in product performance, delivery and data migration. In 2011, the Group will further improve customer support and enhance client customer communication and strategic partnering.

The acquisition of the LAMP managed services contracts and Strand Electoral Management Services added to the Group's market penetration, provided further synergies and expanded and improved the premium managed services offering.

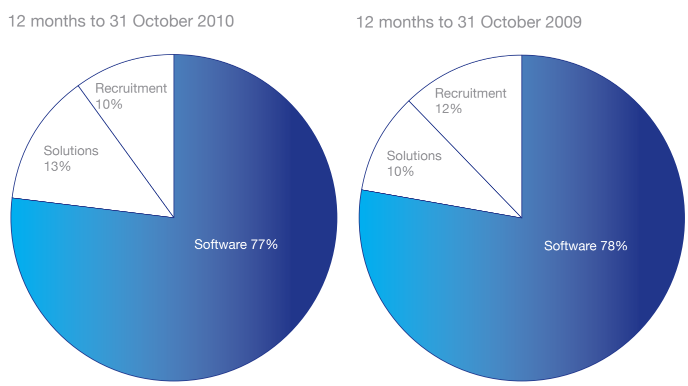
When CAPS Solutions was acquired in 2007, the Group inherited a large embryonic contract to provide a planning system for Northern Ireland. This year not only saw the successful completion and roll out of this system across Northern Ireland but also the completion of the Scottish government contracts with a faultless post completion audit.

Project sales within the Solutions segment were affected by Government cutbacks. However, Idox enters 2011 with a strong pipeline. The Solutions segment gained critical mass through the acquisition of GRANTfinder, which has enabled it to deliver improved grants information and policy web solutions to the UK and now Europe utilising a common infrastructure. The same model is now being extended in both Holland and Spain, building on the division's EU grants information coverage.

The Recruitment segment had its most difficult year yet with public sector contractor revenues falling materially in the middle of the year and permanent recruitment revenues growing only slowly as it tracked the hesitant private sector recovery. Despite this, the business managed to deliver a positive contribution in the year. The last quarter saw a marked improvement in sentiment in both contract and permanent activity, giving the Board confidence for the current trading year.

In 2010, Idox continued to invest in software application development and has coordinated a number of initiatives internally to provide better solutions for customers. The Group has continued to manage its cost base meticulously and integrated three acquisitions without

### Divisional analysis: Revenue Mix



# Chief Executive's Report cont'd

For the year ended 31 October 2010

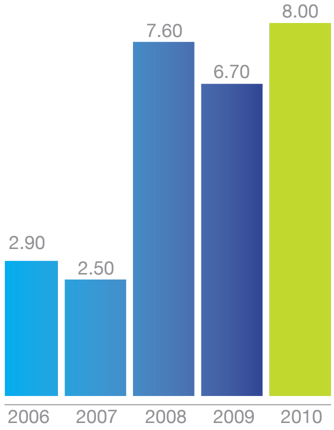
increasing overheads. As part of the integration process, the Group has also revised its corporate branding.

**Outlook**

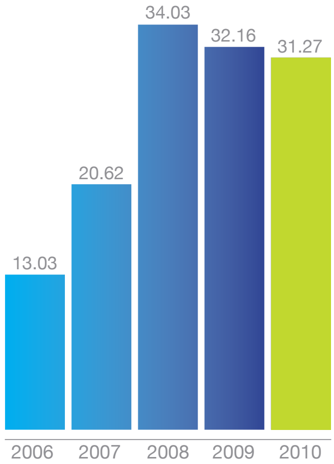
The Group has started the current financial year in a strong position, with greater predictability than has been the case for the past two years and a strong pipeline in all its businesses. Although total public sector spending is under intense pressure, Idox products and services enhance local government efficiencies and the Group expects the market for solutions that deliver a tangible return on investment to grow.

The Group also has a wider range of capabilities, larger market share and broader reach in its markets. There are encouraging signs of increased activity in a number of areas and Idox is well positioned to take advantage of new opportunities emerging in both 2011 and beyond.

**Richard Kellett-Clarke**
Chief Executive Officer
25 January 2011




Normalised profit before tax (£m)




Turnover (£m)

# Chief Financial Officer's Review

For the year ended 31 October 2010

Group revenues were £31.3m (2009: £32.2m) reflecting the reduction in the low-margin contract recruitment business and the benefit in the prior year of the large Scottish Executive contract.

The Software segment, which accounts for 77% of Group revenues, delivered £24.1m (2009: £25.1m), of which around 62% were recurring (2009: 52%). In 2009, Software revenue was boosted by £1.0m by the inclusion of both the second and third phases of the Scottish Government e-planning project.

In common with the previous financial year, newly contracted business contained a higher proportion of maintenance and managed service contracts which, on a like-for-like basis, contributed to a 6% increase in software maintenance revenues and increases revenue visibility into 2011 and beyond.

The acquisition of the 11 LAMP managed services contracts in March 2010 for £2.9m and Strand Electoral Management Services in July 2010 for £4.4m together contributed £1.1m to Software revenues.

The Solutions segment increased revenue by 24% to £4.2m (2009: £3.4m) as a result of a six-month contribution from GRANTfinder, acquired in May 2010, which provides content to local authorities and other public sector bodies. The acquisition of GRANTfinder for £3.3m has further augmented recurring revenues, which now make up 62% (2009: 53%) of Solutions turnover.

The Recruitment segment reported revenues of £3.0m (2009: £3.8m), reflecting a £1.2m decline in the low margin contract recruitment business. However, revenues in the high margin permanent recruitment business doubled to £0.6m as its core operating markets showed signs of recovery during the final quarter of the financial year.

Gross margins for the Group saw a marked improvement to 83% (2009: 77%), with increases in all three businesses. Software margins of 87% (2009: 85%) improved due to the higher mix of recurring maintenance and managed service revenues and the absence of the additional costs incurred in 2009 in relation to the delivery of the Scottish Government Stream 2 project.

The continuing shift within the Recruitment segment toward permanent placements resulted in gross margins of 39% (2009: 31%). The increased scale and recurring content subscription revenues within the Solutions business generated margins of 92% (2009: 72%).

Operating costs were further reduced to £17.3m (2009: £17.4m) even after the three acquisitions in the last financial year. On a like-for-like basis, excluding acquisitions, overheads were £1.5m, or 9%, lower as a result of tight cost controls and continued productivity and efficiency gains.

EBITDA increased by 16% to £8.7m (2009: £7.5m) reflecting the progress made in managing revenues in a challenging environment, increasing gross margins and managing operating costs in addition to the maiden contribution from acquisitions. As a result EBITDA margins increased to 28% (2009: 23%)

Normalised pre-tax profit, excluding amortisation, share options costs and exceptional charges increased by 21% to £8.0m (2009: £6.6m). Pre-tax profit was £4.9m (2009: £4.5m) after the non cash amortisation charge following the acquisitions made in the year, non cash share option charge and exceptional restructuring and corporate finance charges of £0.6m (2009: £0.4m).

# Chief Financial Officer's Review cont'd

For the year ended 31 October 2010

Normalised earnings per share were up 16% to 1.75p (2009: 1.51p). Basic earnings per share were 1.07p (2009: 1.01p).

The Board proposes a final dividend of 0.35p to give a full year dividend of 0.45p (2009: 0.20p). The 125% increase in dividend reflects the Board's continuing confidence in the long-term strength of the business, its revenue visibility and its healthy operating cash generation.

Idox ended the year with £2.0m cash (2009: £6.9m) and net debt of £0.9m (2009: £3.2m net cash) after funding the three acquisitions, totalling £10.6m, a dividend payment of £0.8m and share buy backs of £0.3m.

**William Edmondson**
Chief Financial Officer
25 January 2011

Gross margins for the Group saw a marked improvement to 83% (2009: 77%), with increases in all three businesses.

# Board of Directors

For the year ended 31 October 2010

Chairman:
**Martin Brooks (Aged 60)**
Martin Brooks was CEO of Financial Times Information, where he brought together Extel and Interactive Data Corporation to form the world's leading supplier of securities valuation data (1994-98). He has spent over 30 years in newspapers management, information publishing and IT, which started at the Financial Times in 1977, after six years serving with the Brigade of Gurkhas. He has also been an adviser or director to other bodies including the ICAEW and is currently Chairman of Cornwall Development Company, the development agency of Cornwall Council.

Chief Executive Officer:
**Richard Kellett-Clarke (Aged 56)**
Richard Kellett-Clarke has 25 years of directorial experience. He joined Idox first as CFO, then was appointed MD of the software division, followed by COO in 2007. He was appointed CEO in November 2007. Before this he has held a number of CFO appointments with Brady plc, Pickwick Group plc, Pearson PLC and Invensys plc. In addition, he was a founder and Managing Director of AFX NEWS Ltd, now part of Thomson Reuters, IT Director of Financial Times Information, and Founding Director of Sealed Media Ltd. a DRM Internet start up (now part of Oracle).

Chief Financial Officer:
**William Edmondson (Aged 41)**
William Edmondson previously spent 7 years at Autodesk inc., latterly as Finance Director for the Europe, Middle-East, India & Africa region. Autodesk inc. is the world's leader in 2D and 3D Design software. Prior to that he was a Divisional Controller at ITV plc and Finance Director of a Technology start-up focused on e-security. He is a UK Chartered Accountant, having trained at PriceWaterhouseCoopers.

Non-Executive Director:
**Christopher Wright (Aged 53)**
Christopher Wright was previously Global Head of Dresdner Kleinwort Capital. He is now Chairman of EMAlternatives LLC, a Director of Merifin Capital, and holds directorships of Roper Industries Inc and other public and private companies in the USA and elsewhere. He is an independent Non-Executive Director and chairs the Remuneration Committee.

Non-Executive Director:
**Rt. Hon. Peter Lilley MP (Aged 67)**
Peter Lilley, MP for Hitchin and Harpenden, was Parliamentary Private Secretary to Ministers for Local Government and after a period at the Treasury served as Secretary of State for Trade and Industry and Secretary of State for Social Security until 1997. He is a Non-Executive Director and Deputy Chairman of Tethys Petroleum Ltd. He is the senior independent Non-Executive Director of Idox and chairs the Audit Committee.

# Directors' Report

For the year ended 31 October 2010

The Directors are pleased to submit their report and audited financial statements for the year ended 31 October 2010.

### Principal Activities and Review of Business

The Company is a holding company. The principal activities of the Group are the development and supply of information and knowledge management products and services. A more detailed review of the business can be found in the Chairman's Statement, the Chief Executive's Report and the Chief Financial Officer's Review on pages 2 to 7.

### Results and Dividends

The audited financial statements for the year ended 31 October 2010 are set out on pages 19 to 69. The Group's profit for the year after tax amounted to £3,638,000 (2009: £3,459,000). The Directors paid a dividend of 0.10 pence per share in the first half of the 2010 financial year, in respect of the year ended 31 October 2010. The Directors will propose, at the forthcoming AGM, a final dividend of 0.35 pence per share in respect of the year ended 31 October 2010.

### Directors and their Interests

The Directors who served during the year and their beneficial interests (including those of their immediate families) in the Company's 1p ordinary share capital were as follows:

| Number of Shares | 31 October 2010 | 1 November 2009 |
|---|---|---|
| C Wright | 912,222 | 702,222 |
| Rt. Hon. P B Lilley MP | 533,000 | 533,000 |
| M Brooks [1] | 3,223,206 | 2,973,206 |
| R G Q Kellett-Clarke [2] | 5,634,848 | 5,484,848 |
| W Edmondson | 100,000 | 100,000 |

[1] 2,952,127 (2009: 2,702,127) of these shares are held through a Self Invested Pension Plan.
[2] 1,616,667 (2009: 1,466,667) of these shares are held through Self Invested Pension Plans and 1,200,000 (2009: 1,200,000) shares are held through certain members of his family and a family trust.

In addition to the shareholdings listed above, the Directors have been granted options over ordinary shares. Full details of these options are given in the Report on Remuneration on page 14.

Details of the Directors' service contracts can be found in the Report on Remuneration on page 13.

### Charitable and Political Donations

The Group made £1,000 charitable donations during the year (2009: £2,295) and no political donations during the year (2009: £Nil).

### Payment of Creditors

It is the group's practice to agree credit terms with all suppliers and to pay all approved invoices within these agreed terms. The average trade payable days for the year were 93 days (2009: 64 days).

# Directors' Report cont'd

For the year ended 31 October 2010

## Substantial Shareholdings

As at 30 November 2010 the Company was aware of the following interests in 3% or more of its issued share capital:

| Shareholder | Number of shares | % Holding |
|---|---|---|
| ISIS Equity Partners | 33,137,409 | 9.63 |
| Herald Investment Trust plc | 30,316,667 | 8.81 |
| JO Hambro Capital Management | 20,000,000 | 5.81 |
| Highclere International Investors | 19,111,801 | 5.55 |
| Constellation Software | 17,200,000 | 5.00 |
| Rensburg Sheppards Investment Management | 17,082,381 | 4.96 |
| Brewin Dolphin | 13,193,197 | 3.83 |
| Williams De Broë | 12,163,825 | 3.53 |

## Health, Safety and Environmental Policies

The Group recognises and accepts its responsibilities for health, safety and the environment (H,S&E) and has a dedicated team which provides advice and support in this area. The team members regularly attend external H,S&E courses and internal reviews are performed on a regular basis to ensure compliance with best practice and all relevant legislation.

## Employee Consultation

The Group consults employees through the National Company Council (NCC). The NCC sits regularly during the year and is made up of representatives voted on the Council by employees. An employee consultation policy is also in place. Employees are encouraged to present their views and suggestions in respect of the Group's performance and policies. In addition, the Group has an intranet which facilitates faster and more effective communication.

An Employee Share Investment Trust is in place to allow employees a tax efficient way of investing in the Company. The Company purchases matching shares which become the property of the employee after a three year vesting period.

## Financial Risk Management Objectives and Policies

The Group uses various financial instruments which include cash, equity investments, bank loans and items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and interest rate risk. The directors review these risks on an ongoing basis. This policy has remained unchanged from previous years.

## Credit Risk

The Group's principal financial assets are cash and trade debtors. The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies. The principal credit risk arises therefore from its trade debtors.

In order to manage credit risk, the management review the debt ageing on an ongoing basis, together with the collection history and third party credit references where appropriate.

# Directors' Report cont'd

For the year ended 31 October 2010

**Liquidity Risk**
The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

**Interest Rate Risk**
Any funds over and above the current working capital requirements of the Group are invested in high interest deposit accounts. The Group's bank borrowings bear interest at rates linked to the LIBOR.

**Principal Risks and Uncertainties**
The principal risks and uncertainties affecting the Group include the following:

> Political – the Group has a large customer base in local government. A change in spending priorities by the current or a future Government could materially impact the Group. However this risk is mitigated due to the contractual nature of the recurring revenue in the Group.

> Economic – elements of the recruitment area of the business activity could be adversely affected by a further slowdown in the economic environment. However, in the event of an improvement in the economy, some recruitment revenue streams may improve. The software area of the business could be adversely affected if the government reduces the grants to local authorities in an economic downturn. The Group has increased diversification through acquisitions to mitigate against economic risks.

> Competitors – the Group has certain competitors for its software products. To mitigate this risk, the Group continues to invest in and develop its software. Competitor risk is also mitigated through the long term nature of customer relationships and recurring software maintenance revenue.

**Key performance indicators**
Key financial performance indicators, including the management of profitability and working capital, monitored on an ongoing basis by management are set out below.

| Indicator | 2010 | 2009 | Measure |
|---|---|---|---|
| **Revenue (£000)** | 31,268 | 32,164 | |
| **Profitability ratios** | | | |
| Gross margin | 83% | 77% | Gross profit as a percentage of revenue |
| EBITDA margin | 28% | 23% | Profit before interest, tax, depreciation, amortisation, corporate finance costs, share option costs and impairments as a percentage of revenue |
| **Other indicator** | | | |
| Debtors days | 53 | 47 | Year end trade debtors divided by turnover, multiplied by 365 days |

# Directors' Report cont'd

For the year ended 31 October 2010

**Non-financial indicators**

| | |
|---|---|
| Quality Management | The Idox group operates a quality policy that has been accredited to ISO 9001:2008 for the development and the sale of products for document, content and information management, providing innovative e-government and e-business solutions that allow the delivery of information to the citizen and customers across the internet, extranet or intranet. |
| Environmental Management | The Idox group operates an environmental management system that has been assessed and approved to accredited BS EN ISO 14001:2004, the approved systems applying to the following: the development and sale of products for document, content and information management, providing innovative e-government and e-business solutions that allow the delivery of information to citizen and customers across the internet, extranet or intranet. |

**Going Concern**

The Directors have reviewed the Group's budget and cash flows for 2011 in the context of the Group's banking facilities and covenants, the level of recurring revenue within the business, the outlook for our chosen markets, and our current working capital resources, and are satisfied that it is appropriate to prepare accounts on a going concern basis. As a result of acquisitions during the year and the subsequent acquisition post year end, on 10 December 2010 the Group put in place a short term six million pound working capital facility. There are no events or conditions that may cast significant doubt about the ability of the Group to continue as a going concern.

**Post balance sheet events**

The Group signed a short term working capital banking facility of £6m on 10 December 2010.

On 13 December 2010, the Group announced the acquisition of McLaren Software Group Limited for £1.0m in cash. Full disclosure is provided in note 28.

**Disclosure of Information to Auditors**

In so far as each of the directors is aware:

> there is no relevant audit information of which the company's auditors are unaware; and

> the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

**Auditors**

A resolution to reappoint Grant Thornton UK LLP as auditors and to authorise the Directors to agree their remuneration will be placed before the forthcoming Annual General Meeting of the Company.

**By order of the Board**
Jane Mackie
Company Secretary

**Registered office**
2nd Floor,
160 Queen Victoria Street
London, EC4V 4BF

# Report on Remuneration

For the year ended 31 October 2010

**Remuneration Committee**
The Remuneration Committee operates within defined terms of reference. The Remuneration Committee comprises the Chairman and two Non-Executive Directors. It is chaired by Christopher Wright.

**Remuneration Policy**
The policy of the Group is to set levels of remuneration to attract, retain and motivate Executive Directors and key staff. The packages are designed to be competitive in value to those offered to the Directors of similar sized public companies in related sectors. It is the Board's policy to align the interests of managers with those of our shareholders in the grant of option and other equity rewards which underlying securities grantees are very much encouraged to retain over the longer term.

The components of the Executive Directors' remuneration packages are currently a basic salary, bonus, money purchase pension contributions and benefits in kind. The benefits include car allowance, private medical cover, life cover and critical illness cover. The bonus elements are dependent on the Executive Directors achieving performance criteria set out by the Remuneration Committee. The criteria include targets for revenue and profits as well as for cash balances. In addition, the Group operates share option schemes for the Executive Directors.

**Directors' Remuneration** (this information has been audited)

| | Basic salary and fees 2010 £000 | Bonus 2010 £000 | Benefits in kind 2010 £000 | Total 2010 £000 | Pension 2010 £000 | Basic salary and fees 2009 £000 | Benefits in kind 2009 £000 | Total 2009 £000 | Pension 2009 £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | | |
| Martin Brooks [1] | 100 | 50 | 1 | 151 | - | 100 | 1 | 101 | - |
| Richard Kellett-Clarke | 195 | 100 | 11 | 306 | 10 | 170 | 11 | 181 | 11 |
| William Edmondson | 129 | 35 | 10 | 174 | 6 | 130 | 9 | 139 | 4 |
| **Non Executive Directors** | | | | | | | | | |
| Christopher Wright | 25 | - | - | 25 | - | 25 | - | 25 | - |
| Peter Lilley | 25 | - | - | 25 | - | 25 | - | 25 | - |
| | 474 | 185 | 22 | 681 | 16 | 450 | 21 | 471 | 15 |

[1] Chairman

The amounts in respect of pension represent money purchase pension contributions.

**Non-Executive Directors**
The Board, based on a recommendation by the Chairman of the Remuneration Committee or, in the case of the Chairman, the remainder of the Board, determines the remuneration of the Non-Executive Directors. The Non-Executive Directors are not eligible to join the pension scheme.

**Service Contracts**
The Executive Directors have entered into service contracts with the Group that are terminable by either party on not less than six months prior notice.

# Report on Remuneration cont'd

For the year ended 31 October 2010

**Share Options** (this information has been audited)

The Directors believe it is important to incentivise key management and employees.

The following options have been granted to the Directors over ordinary 1p shares in the Company:

| Director | At start of year | Granted during the year | Exercised | Lapsed | At end of year | Exercise price | Exercise date From | Exercise date To |
|---|---|---|---|---|---|---|---|---|
| Richard Kellett-Clarke | 2,250,000 | - | - | - | 2,250,000 | 6.50p | Feb 2007 | Oct 2011 |
| Richard Kellett-Clarke | 2,250,000 | - | - | - | 2,250,000 | 9p | Feb 2007 | Oct 2014 |
| Richard Kellett-Clarke | 275,000 | - | - | - | 275,000 | 15p | Dec 2007 | Dec 2017 |
| Richard Kellett-Clarke | 769,231 | - | - | - | 769,231 | 13p | Aug 2008 | Aug 2018 |
| Richard Kellett-Clarke | 666,667 | - | - | - | 666,667 | 15p | Aug 2008 | Aug 2018 |
| Richard Kellett-Clarke | - | 2,439,024 | - | - | 2,439,024 | 10.25p | Mar 2010 | Mar 2020 |
| Martin Brooks | 2,250,000 | - | - | - | 2,250,000 | 6.50p | Feb 2007 | Oct 2011 |
| Martin Brooks | 2,250,000 | - | - | - | 2,250,000 | 9p | Feb 2007 | Oct 2014 |
| Martin Brooks | 275,000 | - | - | - | 275,000 | 15p | Dec 2007 | Dec 2017 |
| Martin Brooks | 423,077 | - | - | - | 423,077 | 13p | Aug 2008 | Aug 2018 |
| Martin Brooks | 366,667 | - | - | - | 366,667 | 15p | Aug 2008 | Aug 2018 |
| Martin Brooks | - | 975,610 | - | - | 975,610 | 10.25p | Mar 2010 | Mar 2020 |
| William Edmondson | - | 1,268,293 | - | - | 1,268,293 | 10.25p | Mar 2010 | Mar 2020 |
| Christopher Wright | - | 243,902 | - | - | 243,902 | 10.25p | Mar 2010 | Mar 2020 |
| Peter Lilley | - | 243,902 | - | - | 243,902 | 10.25p | Mar 2010 | Mar 2020 |
| Totals | 11,775,642 | 5,170,731 | - | - | 16,946,373 | | | |

The mid market price of the Company's shares at close of business on 31 October 2010 was 12.75p and the high and low share prices during the year were 12.75p and 9.88p respectively.

The Company recognised total expenses of £185,000 (2009: £99,000) related to equity-settled share-based payment transactions during the year.

**Directors' Share Interests**
The Directors' shareholdings in the Company are listed in the Directors' Report on page 9.

# Corporate Governance Report

For the year ended 31 October 2010

**Corporate Governance**
The Group is committed to applying the highest principles of corporate governance commensurate with its size. The Group has adopted the Quoted Company Alliance (QCA) Corporate Governance Guidelines for AIM Companies as published in September 2010. The Group complies with the QCA Corporate Governance Guidelines except whereby:

> the Board does not currently undertake performance evaluation of the Board, its committees, and its individual directors.

> the Board held 7 Board meetings and 2 of each Committee meetings during the year. All Directors attended each Board meeting. Two Directors attended each Committee meeting.

**Internal Controls**
The Board takes responsibility for establishing and maintaining reliable systems of control in all areas of operation. These systems of control, especially of financial control, can only provide reasonable, but not absolute, assurance against material misstatement or loss.

The key matters relating to the system of internal control are set out below:

> Idox plc has established an operational management structure with clearly defined responsibilities and regular performance reviews

> the Group operates a comprehensive system for reporting financial and non-financial information to the Board including preparation and review of strategy plans and the preparation and review of annual budgets

> financial results are monitored against budgets, forecasts and other performance indicators with action dictated accordingly at each meeting

> a structured approval process based on assessment of risk and value delivered

> sufficient resource is focused to maintain and develop internal control procedures and information systems, especially in financial management.

The Board considers that there have been no substantial weaknesses in internal financial controls that have resulted in any material losses, contingencies or uncertainties which need to be disclosed in the accounts.

The Group supports an internal audit function that performs annual audits on its management systems. This function is supported by a management review of the audit findings. Audits are currently carried out on the Group's Quality and Environmental management systems.

Following publication of Internal Control: Guidance for Directors on the Combined Code (the "Turnbull Guidance"), the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group, and that this process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts. This process is regularly reviewed by the Board and is consistent with the Turnbull Guidance.

**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 have to prepare the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs). The directors have elected to prepare the company financial statements under UK Generally Accepted Accounting Practice ("UK GAAP").

The financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

> select suitable accounting policies and then apply them consistently

> make judgments and estimates that are reasonable and prudent

> state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding

# Corporate Governance Report cont'd

For the year ended 31 October 2010

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 ensuring that the Directors' Report and other information included in the Annual Report is prepared in accordance with United Kingdom company law. They are also responsible for ensuring that the Annual Report includes information required by the AIM Market Rules.

The maintenance and integrity of the Group's web site is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the information contained in the accounts since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and the dissemination of the accounts and other information included in annual reports may differ from legislation in other jurisdictions.

**Accounting Policies**
The Board considers the appropriateness of its accounting policies on an annual basis. The Board believes that its accounting policies are appropriate in particular in relation to income recognition and research and development.

**Board of Directors**
The Board, comprising the Chairman, the Chief Executive Officer, the Chief Financial Officer and two Non-Executive Directors, is responsible for the overall strategy and direction of Idox plc as well as for approving potential acquisitions, major capital expenditure items and financing matters. The Board has a formal schedule of business reserved to it and meets regularly during the year. The Board is supplied in a timely manner with information in a form and of a suitable quality appropriate to enable it to discharge its duties. Advice from independent sources is available if required. The Board monitors exposure to key business risks and reviews the strategic direction of the Group, the annual budgets as well as their progress against those budgets.

The Board members and their roles are described on page 8. In accordance with the Company's Articles of Association, one third of the Directors are required to retire by rotation at the Annual General Meeting.

**Shareholder Relations**
Idox plc is committed to open communication with all its shareholders. The Directors hold regular meetings with institutional shareholders to discuss and review the Group's activities and objectives. Communication with private shareholders is principally through the Annual General Meeting, where participation is encouraged and where the Board is available to answer questions. Idox plc maintains up-to-date information on the Investor Relations section of its website www.Idoxplc.com.

Every shareholder has access to a full annual report each year end and an interim report at the half year end. Care is taken to ensure that any price sensitive information is released to all shareholders, institutional and private, at the same time in accordance with London Stock Exchange requirements.

Idox plc strives to give a full, timely and realistic assessment of its business in a balanced way, in all price-sensitive reports and presentations.

The Group has adopted the Quoted Company Alliance (QCA) suggested terms of reference for the various Board committees as set out by the QCA.

**The Audit Committee**
The Audit Committee is chaired by Peter Lilley and includes Christopher Wright. The Report of the Audit Committee can be found on page 17.

**The Nomination Committee**
The Nomination Committee is chaired by Peter Lilley and includes Christopher Wright.

**The Remuneration Committee**
The Remuneration Committee is chaired by Christopher Wright and includes Peter Lilley. This Committee determines the remuneration and benefits packages for the Executive Directors and any changes to the service contracts. The Committee also approves any share related incentive schemes within the Group.

**Membership and Meetings**
The Audit Committee is a committee of the Board and is comprised of two Non-Executive Directors: Peter Lilley and Christopher Wright.

The Audit Committee invites the Executive Directors, the external auditors and other senior managers to attend its meetings as appropriate. The Company Secretary is also the Secretary of the Audit Committee.

The Audit Committee is considered to have sufficient, recent and relevant financial experience to discharge its functions.

During the period under review, the Audit Committee met three times.

# Report of the Audit Committee

For the year ended 31 October 2010

**Role, Responsibilities and Terms of Reference**
The Audit Committee's role is to assist the Board in the effective discharge of its responsibilities for financial reporting and internal control.

The Audit Committee's responsibilities include:

- to review the integrity of the annual and interim financial statements of the Group ensuring they comply with legal requirements, accounting standards and AIM rules, and any other formal announcements relating to the Group's financial performance
- to review the Group's internal financial control and risk management systems
- monitor and review the requirement for an internal audit function
- to review the arrangements for staff to whistle-blow on financial reporting and other matters
- safeguard the auditor's objectivity and independence when non-audit services are provided
- oversee the relationship with the external auditor, including approval of their remuneration, agreeing the scope of the audit engagement, assessing their independence, monitoring the provision of non-audit services, and considering their reports on the Group's financial statements.

The Audit Committee operates within agreed terms of reference, which can be found on the Company's website.

**Independence of External Auditors**
The Committee keeps under review the relationship with the external auditors including:

- the independence and objectivity of the external auditors, taking into account the relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of the non-audit services
- the consideration of audit fees and any fees for non-audit services.

The Audit Committee develops and recommends to the Board the Group's policy in relation to the provision of non-audit services by the auditors, and ensures that the provision of such services does not impair the external auditor independence.

**Peter Lilley**
Chairman of the Audit Committee
25 January 2011

# Report of the Independent Auditors to the members of Idox plc

We have audited the group financial statements of Idox plc for the year ended 31 October 2010 which comprise the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity, the consolidated cash flow statement, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

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

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the group financial statements:

> give a true and fair view of the state of the group's affairs as at 31 October 2010 and of its profit for the year then ended;

> have been properly prepared in accordance with IFRS as adopted by the European Union; and

> have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

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

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

> 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.

**Other matter**

We have reported separately on the parent company financial statements of Idox plc for the year ended 31 October 2010.

**Mark Cardiff**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
25 January 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 October 2010

| | Note | 2010<br>£000 | 2009<br>£000 |
|---|---|---|---|
| **Revenue** | 2 | 31,268 | 32,164 |
| External charges | | (5,290) | (7,283) |
| Gross margin | | 25,978 | 24,881 |
| Staff costs | 4 | (14,170) | (14,026) |
| Other operating charges | | (3,091) | (3,376) |
| **Earnings before goodwill impairment, amortisation, depreciation, restructuring, corporate finance and share option costs** | | 8,717 | 7,479 |
| Depreciation | 10 | (403) | (372) |
| Amortisation | 11 | (2,260) | (1,112) |
| Goodwill impairment charge | 11 | - | (533) |
| Restructuring costs | 4 | (187) | (427) |
| Corporate finance costs | 5 | (438) | - |
| Share option costs | | (185) | (99) |
| **Operating profit** | 3 | 5,244 | 4,936 |
| Finance income | | 15 | 125 |
| Finance costs | | (316) | (582) |
| **Profit before taxation** | | 4,943 | 4,479 |
| Income tax expense | 8 | (1,305) | (1,020) |
| **Profit for the year** | | 3,638 | 3,459 |
| **Other comprehensive income for the year**<br>Available-for-sale financial assets<br>- current year gain | | 35 | - |
| **Other comprehensive income for the year, net of tax** | | 35 | - |
| **Total comprehensive income for the year attributable to owners of the parent** | | 3,673 | 3,459 |
| **Earnings per share** | | | |
| Basic | 9 | 1.07p | 1.01p |
| Diluted | 9 | 1.05p | 1.00p |

The accompanying accounting policies and notes form an integral part of these financial statements.

# Consolidated Balance Sheet

At 31 October 2010

| | Note | 2010 £000 | 2009 £000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | 504 | 757 |
| Intangible assets | 11 | 44,629 | 32,608 |
| Other long-term financial assets | 13 | 855 | - |
| Deferred tax assets | 20 | 283 | 315 |
| **Total non-current assets** | | 46,271 | 33,680 |
| | | | |
| **Current assets** | | | |
| Trade and other receivables | 15 | 5,915 | 6,462 |
| Cash and cash equivalents | 14 | 2,004 | 6,947 |
| **Total current assets** | | 7,919 | 13,409 |
| **Total assets** | | 54,190 | 47,089 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 16 | 2,784 | 3,171 |
| Other liabilities | 17 | 11,794 | 8,138 |
| Provisions | 18 | 133 | 138 |
| Current tax | | 1,052 | 187 |
| Borrowings | 19 | 1,000 | 1,000 |
| **Total current liabilities** | | 16,763 | 12,634 |
| | | | |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 20 | 4,549 | 3,501 |
| Borrowings | 19 | 1,866 | 2,781 |
| **Total non-current liabilities** | | 6,415 | 6,282 |
| **Total liabilities** | | 23,178 | 18,916 |
| **Net assets** | | 31,012 | 28,173 |

# Consolidated Balance Sheet cont'd

At 31 October 2010

| | Note | 2010 £000 | 2009 £000 |
|---|---|---|---|
| **EQUITY** | | | |
| Called up share capital | 22 | 3,442 | 3,442 |
| Capital redemption reserve | | 1,112 | 1,112 |
| Share premium account | | 9,903 | 9,903 |
| Treasury reserve | | (455) | (212) |
| Share options reserve | | 630 | 454 |
| Merger reserve | | 1,294 | 1,294 |
| ESOP trust | | (93) | (88) |
| Retained earnings | | 15,179 | 12,268 |
| **Total equity** | | 31,012 | 28,173 |

The financial statements were approved by the Board of Directors and authorised for issue on 25 January 2011 and are signed on its behalf by:

**William Edmondson**
Chief Financial Officer

**Richard Kellett-Clarke**
Chief Executive Officer

The accompanying accounting policies and notes form an integral part of these financial statements.

Company name: Idox plc Company number: 03984070

# Consolidated Statement of Changes in Equity

## For the year ended 31 October 2010

| | Called up share capital £000 | Capital redemption reserve £000 | Share premium account £000 | Treasury reserve £000 | Share options reserve £000 | Merger reserve £000 | ESOP Trust £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|
| **The group** | | | | | | | | | |
| **At 1 November 2008** | 3,442 | 1,112 | 9,883 | - | 364 | 1,294 | (96) | 9,447 | 25,446 |
| Deferred tax on share based payments | - | - | - | - | - | - | - | 25 | 25 |
| Issue of share capital | - | - | 20 | 3 | - | - | - | - | 23 |
| Transfer on exercise of share options | - | - | - | - | (9) | - | - | 9 | - |
| Purchase of treasury shares | - | - | - | (207) | - | - | - | - | (207) |
| Share options granted | - | - | - | - | 59 | - | - | - | 59 |
| Share repurchase | - | - | - | (8) | - | - | - | - | (8) |
| Total recognised income and expense for the year | - | - | - | - | - | - | - | 3,459 | 3,459 |
| Share options reserve | - | - | - | - | 40 | - | - | - | 40 |
| Equity dividends paid | - | - | - | - | - | - | - | (672) | (672) |
| ESOP trust | - | - | - | - | - | - | 8 | - | 8 |
| **Transactions with owners** | - | - | 20 | (212) | 90 | - | 8 | (638) | (732) |
| Profit for the period | - | - | - | - | - | - | - | 3,459 | 3,459 |
| **Total comprehensive income for the period** | - | - | - | - | - | - | - | 3,459 | 3,459 |
| **At 31 October 2009** | 3,442 | 1,112 | 9,903 | (212) | 454 | 1,294 | (88) | 12,268 | 28,173 |
| Deferred tax on share based payments | - | - | - | - | - | - | - | - | - |
| Transfer on exercise of share options | - | - | - | - | (9) | - | - | (5) | (14) |
| Purchase of treasury shares | - | - | - | (249) | - | - | - | - | (249) |
| Share options granted | - | - | - | - | 185 | - | - | - | 185 |
| Share repurchase | - | - | - | 6 | - | - | - | - | 6 |
| Equity dividends paid | - | - | - | - | - | - | - | (757) | (757) |
| ESOP trust | - | - | - | - | - | - | (5) | - | (5) |
| **Transactions with owners** | - | - | - | (243) | 176 | - | (5) | (762) | (834) |
| Profit for the period | - | - | - | - | - | - | - | 3,638 | 3,638 |

# Consolidated Statement of Changes in Equity cont'd

For the year ended 31 October 2010

| | Called up share capital £000 | Capital redemption reserve £000 | Share premium account £000 | Treasury reserve £000 | Share options reserve £000 | Merger reserve £000 | ESOP Trust £000 | Retained earnings £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|---|
| **Other comprehensive income** | | | | | | | | | |
| Fair value gain on investment | - | - | - | - | - | - | - | 35 | 35 |
| **Total comprehensive income for the period** | - | - | - | - | - | - | - | 3,673 | 3,673 |
| **At 31 October 2010** | 3,442 | 1,112 | 9,903 | (455) | 630 | 1,294 | (93) | 15,179 | 31,012 |

The accompanying accounting policies and notes form an integral part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 October 2010

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Profit for the period before taxation | 4,943 | 4,479 |
| Adjustments for: | | |
| Depreciation | 403 | 372 |
| Amortisation | 2,260 | 1,112 |
| Goodwill impairment | - | 533 |
| Loss on disposal of property, plant and equipment | 160 | - |
| Finance income | (15) | (125) |
| Finance costs | 189 | 497 |
| Debt issue costs amortisation | 85 | 85 |
| Share option costs | 185 | 99 |
| Exchange losses | 8 | 27 |
| Movement in receivables | 1,055 | 1,955 |
| Movement in payables | (563) | (1,541) |
| **Cash generated by operations** | 8,710 | 7,493 |
| Tax on profit paid | (1,009) | (2,152) |
| **Net cash from operating activities** | 7,701 | 5,341 |
| **Cash flows from investing activities** | | |
| Acquisition of subsidiary net of cash acquired | (5,543) | (795) |
| Purchase of listed investment | (820) | - |
| Purchase of property, plant and equipment | (613) | (595) |
| Purchase of intangible assets | (3,470) | (464) |
| Finance income | 15 | 125 |
| **Net cash used in investing activities** | (10,431) | (1,729) |
| **Cash flows from financing activities** | | |
| Proceeds from issue of share capital | - | 20 |
| Interest paid | (189) | (353) |
| Other loan related costs | - | (144) |
| Loan repayments | (1,000) | (3,000) |
| Equity dividends paid | (757) | (672) |
| Purchase of own shares | (267) | (204) |
| **Net cash flows from financing activities** | (2,213) | (4,353) |
| **Net movement on cash and cash equivalents** | (4,943) | (741) |
| Cash and cash equivalents at the beginning of the period | 6,947 | 7,688 |
| Cash and cash equivalents at the end of the period | 2,004 | 6,947 |

The accompanying accounting policies and notes form an integral part of these financial statements.

# Notes to the Accounts

For the year ended 31 October 2010

## 1 ACCOUNTING POLICIES

### General Information
Idox plc is a leading supplier of software and services for the management of local government and other organisations. The company is a public limited company which is listed on the London Alternative Investment Market and is incorporated and domiciled in the UK. The address of its registered office is 160 Queen Victoria Street, London. The registered number of the company is 03984070.

The financial statements are prepared in pound sterling.

### Basis of preparation
These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities, being available for sale investments.

As set out on page 12 of the Directors' Report, the financial statements have been prepared on a going concern basis.

### International Financial Reporting Standards and Interpretations issued but not yet effective
At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published that are mandatory for forthcoming financial periods, but which the Group has not adopted early. Those which are considered relevant to the Group's operations are as follows:

> IAS 32 Amendment: Classification of Rights Issues. The Amendment alters IAS 32 so that rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of its own (non-derivative) equity instruments. This amendment applies for periods commencing on or after 1 February 2010.

> Amendments to IFRS 2 – Group cash-settled share based payment transactions. The amendment clarifies that an entity that receives goods or services from its suppliers (including employees) must apply IFRS 2 even where the obligation to make the required share-based cash payment lies with another group entity. This amendment is effective from 1 January 2010.

> IAS 24 (Revised 2009) "Related Party Disclosures" - effective 1 January 2011. The revised standard modifies the definition of related parties.

The directors anticipate that the adoption of these Standards and Interpretations will have no marked impact on the financial statements when they come into effect.

### Adoption of new and revised standards
The following new standards and amendments to standards have been adopted by the Group during the year.

IAS 1 Revised 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring non-owner changes in equity to be presented separately from owner changes in equity. All non-owner changes in equity are required to be shown in a performance statement. It also requires that where a balance sheet is restated that the opening balance sheet is also disclosed. There has been no restatement of the balance sheet and therefore an opening balance sheet has not been disclosed.

IFRS 2 (amendment) 'Share-based payment'. This revision of an existing standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. This has resulted in no change to the share-based payments charge for the period.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

Amendment to IFRS 7, 'Financial instruments; Disclosures' – The amendment increases the disclosure requirements about fair value measurement and reinforces existing principles for disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosure and requires some specific quantitative disclosures for financial instruments in the lowest level of the hierarchy. In addition, the amendment clarifies and enhances existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. This has not resulted in any changes to the disclosures in these financial statements.

IFRS 3 R, 'Business combinations'– The revised standard requires that all acquisition related costs are to be expensed in the period incurred rather than added to the cost of the investment, that changes to contingent consideration following a business combination are shown in the statement of comprehensive income rather than changing goodwill, and that changes to deferred tax assets relating to business combinations are only reflected within goodwill if they occur within the measurement period. Furthermore, purchase accounting only applies at the point when control is achieved. The Group has applied IFRS 3 R prospectively to all business combinations from 1 November 2009. Where a business combination and the related assets and liabilities arising were acquired before 1 November 2009 they are not adjusted by IFRS 3 R and as a result comparatives for 2009 have not been restated.

IAS 27 R, 'Consolidated and Separate Financial Statements', the revised standard requires that acquisitions and disposals that do not result in a change of control are accounted for within equity. Any difference between the change in the non-controlling interest and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the parent and does not generate goodwill. Improvements to IFRS issued May 2010 – part effective 1 July 2010, other parts effective 1 January 2011.

**Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates and assumptions will, by definition, seldom equal the related actual results. The Group has evaluated the estimates and assumptions that have been made in relation to the carrying amounts of assets and liabilities in these financial statements. The estimates and assumptions which have the most significant impact on the financial statements which are recognised in the financial statements are as follows:

(i) Intangible assets

The Group recognises intangible assets acquired as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement and includes assumptions on the timing and amount of future incremental cash flows generated by the assets and selection of an appropriate cost of capital. Furthermore, management must estimate the expected useful lives of intangible assets and charge amortisation on those assets accordingly. In determining the useful economic life of the intangible software assets, management has given consideration to the length of time that its own software is typically used within its market. In addition, management reviewed competitor products and the length of time they had also been in use.

Consideration was also given as to the likelihood that a new competitor could enter the market with a new product. This was considered unlikely due to the up-front capital investment which would be required to develop a new product, the requirement for reference sites to demonstrate the product, and the long life cycles which products have in the market. For details on the estimates made in relation to intangible assets, see note 11.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

(ii) Development costs
The Group reviews half yearly whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the directors. See note 11 for further information.

(iii) Impairment of goodwill
The Group is required to test, as least annually, whether goodwill has suffered any impairment. The recoverable amount is determined based upon value-in-use and net realisable value calculations. The value-in-use method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. Pre-tax discount rates have been applied and are based on WACC calculations. See note 11 for further commentary.

(iv) Revenue recognition
The group recognises revenue on certain contracts such as work in progress, prior to an invoice being raised, where work has been completed and there is a high degree of certainty of the contract being completed and the invoice raised and cash received. See paragraph headed 'Revenue' below for more detail on how the Group accounts for revenue.

(v) Dilapidations
Dilapidation provisions are management's best estimates based on actual costs incurred in existing or similar properties. See note 18 for details of the amounts included in the balance sheet at the year end.

(vi) Business combination assessment
On 1 March 2010 the group acquired eleven long term managed service contracts from MacDonald, Detwiller and Associates Limited. Consideration of £2.9m was paid on 24 September 2010. The date of acquisition is considered to be 1 March 2010, the date the sale and purchase agreement was signed and the date the risk and rewards of the contracts transferred and control passed to the Group.

This acquisition does not fall under IFRS3 revised as it was the acquisition of an asset or a group of assets which does not constitute a business under the definition.

**Basis of consolidation**
The Group accounts consolidate the accounts of the Company and its subsidiary undertakings drawn up to 31 October each year. Subsidiaries are those entities over which the Group has the power to control the financial and operating policies. Over all its subsidiaries, Idox plc obtains and exercises control through 100% of the voting rights.

The Group elected not to apply IFRS 3 Business Combinations retrospectively to business combinations prior to 1 November 2006. Accordingly the classification of the combination (acquisition, reverse acquisition or merger) remains unchanged from that used under UK GAAP.

Assets and liabilities are recognised at the date of transition if they would be recognised under IFRS, and are measured using their UK GAAP carrying amount immediately post-acquisition as deemed cost under IFRS, unless IFRS requires fair value measurement. Deferred tax is adjusted for the impact of any consequential adjustments after taking advantage of the transitional provisions.

All inter-company transactions are eliminated on consolidation.

For business combinations occurring since 1 November 2009, the requirements of IFRS 3R have been applied. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset of liability arising from a contingent

# Notes to the Accounts cont'd

For the year ended 31 October 2010

consideration arrangement. Acquisition costs are expensed as incurred.

**Revenue**
Revenue represents the amounts receivable in respect of goods and services provided during the year, stated net of value added tax. Where work has been done, but a billing milestone has not been reached, the income has been accrued and included in amounts recoverable within trade and other receivables.

Revenue is measured at the fair value of the right to consideration. The Group derives its revenue streams from software solutions, information solutions and recruitment services.

Idox Software products' revenue is recognised in stages based on contract signing, delivery, configuration and client acceptance. For small value orders, the whole invoice amount is recognised at the billing point. For larger value orders, revenue is reviewed to see if the appropriate amount of work has been completed. For the largest orders, the amount of revenue recognised is dependent on the percentage of completion of the Group's contractual obligations. The revenues for maintenance and managed service contracts are spread over the period of the agreement, which is typically one year.

Revenue derived from information solutions content is recognised over the life of the subscription, which is typically one year. Revenue from projects is recognised over the life of the project in accordance with the stage of completion. Revenue from information solutions based managed services is recognised on a usage basis as the service is performed.

Recruitment revenue from permanent placements is recognised in the month when the placement starts. Revenue from contract recruitment is recognised as the service is performed.

**Contract revenue**
The amount of profit attributable to the stage of completion of a long term contract is recognised only when the outcome of the contract can be foreseen with reasonable certainty. Revenue for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as they are foreseen.

Amounts recoverable on contracts are included in trade and other receivables and represent revenue recognised in excess of payments on account.

**Segmental reporting**
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the steering committee, which comprises the Chief Executive Officer and the Chief Financial Officer, that makes strategic decisions. Given a segmental balance sheet is no longer used for internal reporting purposes, this is no longer shown.

**Goodwill**
Goodwill is stated after separate recognition of identifiable intangible assets. It is calculated as the excess of the sum of a) fair value of consideration transferred, b) the recognised amount of any non-controlling interest in the acquiree and c) acquisition-date fair value of any existing equity interest in the acquiree, over the acquisition-date fair values of identifiable net assets. If the fair values of the identifiable net assets exceed the sum calculated above, the excess amount (i.e. gain on a bargain purchase) is recognised in profit or loss immediately.

Cash-generating units to which goodwill has been allocated are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

Goodwill is carried at cost less accumulated impairment losses. Negative goodwill is recognised immediately after acquisition in the statement of comprehensive income. Unallocated goodwill on acquisitions relates mainly to workforce valuation, synergies and economies of scale obtained on combining acquisitions with existing operations. Goodwill written off to reserves prior to the date of transition to IFRS remains in reserves. There is no re-instatement of goodwill that was amortised prior to transition to IFRS. Goodwill previously written off to reserves is not written back to profit or loss on subsequent disposal.

**Other intangible assets**

Intangible assets with a finite useful life are amortised to the consolidated statement of comprehensive income on a straight-line basis over their estimated useful lives, which are reviewed on an annual basis. Amortisation commences when the asset is available for use. The residual values of intangible assets are assumed to be zero.

(i) Research and development

Expenditure on research (or the research phase of an internal project) is recognised as an expense in the period in which it is incurred. Development costs incurred are capitalised when all the following conditions are satisfied:

> completion of the intangible asset is technically feasible so that it will be available for use or sale

> the group intends to complete the intangible asset and use or sell it

> the group has the ability to use or sell the intangible asset

> the intangible asset will generate probable future economic benefits. Among other things, this requires that there is a market for the output from the intangible asset or for the intangible asset itself, or, if it is to be used internally, the asset will be used in generating such benefits

> there are adequate technical, financial and other resources to complete the development and to use or sell the intangible asset, and

> the expenditure attributable to the intangible asset during its development can be measured reliably.

Development costs not meeting the criteria for capitalisation are expensed as incurred. The cost of an internally generated intangible asset comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management. Amortisation commences upon completion of the asset, and is shown separately on the statement of comprehensive income.

Careful judgement by the directors is applied when deciding whether the recognition requirements for development costs have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgements are based on the information available at each balance sheet date. In addition, all internal activities related to the research and development of new software products are continuously monitored by the directors.

Amortisation is calculated using the straight line method over a period of 5 years.

(ii) Customer relationships

Customer relationships represent the purchase price of customer lists and contractual relationships purchased on the acquisition of CAPS Solutions Limited, Plantech Limited, j4b Software & Publishing Limited, Strand Electoral Management Services Limited and GRANTfinder Limited. These relationships are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method over a period of 20, 10 and 5 years.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

(iii) Trade names
Trade names represent the named intangible asset recognised on the acquisition of CAPS Solutions Limited, Plantech Limited, j4b Software & Publishing Limited, Strand Electoral Management Services Limited and GRANTfinder Limited. These trade names are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method over a period of 20 and 10 years.

(iv) Software
Software represents the Uniform, Acolaid and electoral software purchased on the acquisition of CAPS Solutions Limited, Plantech Limited and Strand Electoral Management Services Limited. The software is carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method over a period of 5 and 10 years. Software also includes software licences purchased which are amortised using the straight line method over a period of 3 years.

(v) Database
Database represents the grant information database purchased on the acquisition of j4b Software & Publishing Limited and GRANTfinder Limited. The database is carried at fair value less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight line method over a period of 5 years.

(vi) Order backlog
Order backlog represents the managed service contracts and subscription deferred revenue purchased on the acquisition of 11 land and property information solution contracts and GRANTfinder Limited. Amortisation on the managed service deferred revenue is calculated based on the weighting and length of each contract purchased. Subscription deferred revenue is calculated using the straight line method over a period of 5 years.

**Impairment**
For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the group at which management monitors the related cash flows.

Goodwill, other individual assets or cash-generating units that include goodwill, other intangible assets with an indefinite useful life, and those intangible assets not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

**Property, plant and equipment**
Items of property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation is charged to the income statement using the following rates and bases so as to write off the cost or valuation of items of property, plant and equipment over their expected useful lives. The rates that are generally applicable are:

| | |
|---|---|
| Computer hardware | 50% and 100% straight line |
| Fixtures, fittings and equipment | 25% straight line |
| Library books and journals | 33 1/3% straight line |

Useful economic lives and residual values are reviewed annually.

**Employee benefits**

**Defined contribution pension plans**
Contributions paid to private pension plans of certain employees are charged to the income statement in the period in which they become payable. Contributions paid to the group personal pension plans of employees are charged to the income statement in the period in which they become payable.

**Share-based payment transactions**
All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 November 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

All equity-settled share-based payments are ultimately recognised as an expense in the income statement with a corresponding credit to the share option reserve.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

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

**Reserves**
Equity comprises the following:

- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Capital redemption reserve" represents when the entire deferred ordinary share capital was bought in exchange for one ordinary 1p share.
- "Merger reserve" which arose as a result of a group reconstruction that occurred in 17 November 2000. This represents the issued share capital and share premium account in the Company's subsidiary undertaking, Idox Software Limited.
- "Share options reserve" represents shares to be issued on potential exercise of those share options that have been accounted for under "IFRS 2 Share Based Payments".
- "ESOP trust" represents share capital purchased to satisfy the liability of the

# Notes to the Accounts cont'd

For the year ended 31 October 2010

employee share scheme. Purchased shares are classified within the ESOP trust reserve and presented as a deduction from total equity.

> "Retained earnings" represents retained profits.

> "Treasury reserve' represents shares repurchased by the company to be held for redistribution as share options.

**Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Current tax is charged to the statement of comprehensive income except to where it relates to tax on items recognised directly in equity, in which case it is charged to equity.
Current tax is the tax currently payable based on taxable profit for the year.

Deferred income taxes are calculated using the liability method on temporary differences. Deferred tax is generally provided on the difference between the carrying amounts of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Deferred tax on temporary differences associated with shares in subsidiaries is not provided if reversal of these temporary differences can be controlled by the group and it is probable that reversal will not occur in the foreseeable future. In addition, tax losses available to be carried forward as well as other income credits to the group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the statement of comprehensive income, except where they relate to items that are charged or credited directly to equity in which case the related deferred tax is also charged or credited directly to equity.

**Operating leases**

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. All leases are operating in nature. Amounts paid under operating leases are charged to the statement of comprehensive income on a straight line basis over the lease term.

**Dividend distributions**

Interim dividends in respect of equity shares are recognised in the financial statements in the period in which they are paid.

Final dividends in respect of equity shares are recognised in the financial statements in the period that the dividends are formally approved.

**Foreign currency translation**

The functional and presentation currency of Idox plc and its United Kingdom subsidiaries is the pound sterling (£). Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the consolidated statement of comprehensive income.

**Capital policy**

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain a capital structure that optimises the cost of capital. In order to

# Notes to the Accounts cont'd

For the year ended 31 October 2010

maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

**Financial instruments**
Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group has become a party to the contractual provisions of the instrument.

**Financial assets**

**Trade and other receivables**
Trade receivables do not carry any interest and are initially stated at their fair value, as reduced by appropriate allowances for estimated irrecoverable amounts. All receivables are considered for impairment. Provision against trade receivables is made when there is objective evidence that the group will not be able to collect all amounts due in accordance with the original terms of those receivables. The amount of the write-down is determined as the difference between the assets carrying value and the present value of estimated future cash flows.

**Cash and cash equivalents**
Cash and cash equivalents comprise cash on hand and on deposit and are subject to an insignificant risk of changes in value.

**Investments**
Investments consist of available-for-sale investments in equity instruments which are measured at market prices. Movements in market value are recognised through the consolidated statement of comprehensive income.

**Financial liabilities and equity**
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contact that evidences a residual interest in the assets of the group after deducting all of its financial liabilities.

**Bank borrowings**
Interest-bearing bank loans and overdrafts are recorded initially at fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are recognised in the income statement over the term of the instrument using an effective rate of interest.

**Trade and other payables**
Trade and other payables are not interest bearing, are initially stated at their fair value and subsequently at amortised cost.

**Equity instruments**
Equity instruments issued by the company are recorded at the proceeds received, net of direct issue costs.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 2 SEGMENTAL ANALYSIS

As at 31 October 2010, the Group is primarily organised into three main business segments, which are detailed below.

Financial information is reported to the Board on a business unit basis with revenue and operating profits split by business unit. Each business unit is deemed a reportable segment as each offer different products and services.

> Software – delivers software and service solutions to mainly local government customers across a broad range of departments

> Solutions – delivering both an information service and consultancy services to a diverse range of customers across both private and public sectors

> Recruitment – providing personnel with information, knowledge, records and content management expertise to a diverse range of customers

Segment revenue comprises of sales to external customers and excludes gains arising on the disposal of assets and finance income. Segment profit reported to the board represents the profit earned by each segment before the allocation of tax, interest payments and share option charges. The assets and liabilities of the Group are not reviewed by the chief executive decision-maker on a segment basis.

The Group does not place reliance on any specific customer and has no individual customer that generates 10% or more of its total Group revenue.

The segment revenues by geographic location for the year ended 31 October 2010 are as follows:

| | United Kingdom £000 | Rest of World £000 | Total £000 |
|---|---|---|---|
| Revenues from external customers | 30,724 | 544 | 31,268 |

The segment revenues by geographic location for the year ended 31 October 2009 are as follows:

| | United Kingdom £000 | Rest of World £000 | Total £000 |
|---|---|---|---|
| Revenues from external customers | 31,856 | 308 | 32,164 |

# Notes to the Accounts cont'd

## For the year ended 31 October 2010

The segment results by business unit for the year ended 31 October 2010 are as follows:

| | Software £000 | Solutions £000 | Recruitment £000 | Total £000 |
|---|---|---|---|---|
| Revenues from external customers | 24,140 | 4,165 | 2,963 | 31,268 |
| Cost of sales | (3,125) | (348) | (1,817) | (5,290) |
| Gross profit | 21,015 | 3,817 | 1,146 | 25,978 |
| Operating costs | (12,749) | (3,530) | (982) | (17,261) |
| Profit before interest, tax, depreciation, amortisation, share option, impairment and redundancy costs | 8,266 | 287 | 164 | 8,717 |
| Depreciation | (311) | (90) | (2) | (403) |
| Amortisation | (1,822) | (429) | (9) | (2,260) |
| Share options costs | (185) | - | - | (185) |
| Redundancy | (113) | (49) | (25) | (187) |
| Profit before interest and taxation | 5,835 | (281) | 128 | 5,682 |
| Interest receivable | 8 | - | - | 8 |
| Segment profit (see reconciliation below) | 5,843 | (281) | 128 | 5,690 |

The segment results for the year ended 31 October 2009 are as follows:

| | Software £000 | Solutions £000 | Recruitment £000 | Total £000 |
|---|---|---|---|---|
| Revenues from external customers | 25,053 | 3,352 | 3,759 | 32,164 |
| Cost of sales | (3,766) | (934) | (2,583) | (7,283) |
| Gross profit | 21,287 | 2,418 | 1,176 | 24,881 |
| Operating costs | (14,120) | (2,071) | (1,211) | (17,402) |
| Profit before interest, tax, depreciation, amortisation, share option, impairment and redundancy costs | 7,167 | 347 | (35) | 7,479 |
| Depreciation | (291) | (79) | (2) | (372) |
| Amortisation | (1,039) | (73) | - | (1,112) |
| Share options costs | (99) | - | - | (99) |
| Goodwill impairment charge | - | (533) | - | (533) |
| Redundancy | (351) | (76) | - | (427) |
| Profit before interest and taxation | 5,387 | (414) | (37) | 4,936 |
| Interest receivable | 22 | 3 | 4 | 29 |
| Segment profit (see reconciliation below) | 5,409 | (411) | (33) | 4,965 |

# Notes to the Accounts cont'd

For the year ended 31 October 2010

Reconciliations of reportable profit

| | 2010 £000 | 2009 £000 |
|---|---|---|
| **Profit:** | | |
| Total profit for reportable segments | 5,690 | 4,965 |
| Corporate finance costs | (438) | - |
| Net financial costs | (309) | (486) |
| Profit before taxation | 4,943 | 4,479 |

Other financial costs relate to loan interest, exchange differences, bank loan facility fee amortisation and interest receivable which have not been included in reportable segments.

## 3 OPERATING PROFIT FOR THE YEAR

Operating profit for the year has been arrived at after charging:

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Auditors' remuneration: | | |
| - Fees payable to the company's auditor for the audit of the parent company | 25 | 25 |
| - The audit of the company's subsidiaries, pursuant to legislation | 46 | 48 |
| - Other services pursuant to legislation | 16 | 16 |
| - Tax services | 15 | 13 |
| Bank facility fee amortisation | 85 | 85 |
| Operating lease rentals – buildings | 367 | 313 |
| Depreciation – property, plant & equipment, owned | 403 | 372 |
| Amortisation of intangibles | 2,260 | 1,112 |
| Loss of disposal of property, plant and equipment | 160 | - |
| Equity-settled share-based payments | 185 | 99 |
| Foreign exchange loss/(gain) | 42 | - |
| Net exit charge of derivative swap instrument | - | 48 |

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 4 DIRECTORS AND EMPLOYEES

Staff costs during the year were as follows:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Wages and salaries | 12,333 | 12,183 |
| Social security costs | 1,415 | 1,380 |
| Pension costs | 422 | 463 |
| Share based payment charge | 185 | 99 |
| | 14,355 | 14,125 |

During the year the group incurred restructuring costs of £187,000 (2009: £427,000). The restructuring costs represent redundancy payments to former staff.

The average number of employees of the group during the year was 332 (2009: 304) and is made up as follows:

| | 2010<br>No | 2009<br>No |
|---|---|---|
| Office and administration (including Directors of the company and its subsidiary undertakings) | 40 | 43 |
| Sales | 44 | 32 |
| Development | 82 | 83 |
| Operations | 97 | 89 |
| Solutions | 56 | 32 |
| Recruitment | 13 | 25 |
| | 332 | 304 |

Remuneration in respect of directors was as follows:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Emoluments | 681 | 471 |
| Pension contributions | 16 | 15 |
| Share based payment charge | 165 | 99 |
| | 862 | 585 |

The amounts set out above include remuneration in respect of the highest paid director as follows:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Aggregate emoluments | 306 | 181 |
| Pension contributions | 10 | 11 |
| | 316 | 192 |

Details of the remuneration for each director are included in the remuneration report which can be found on page 13 but which do not form part of the audited accounts.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 5 CORPORATE FINANCE COSTS

Corporate finance costs are incurred by the Group through acquisition activity. Following the implementation of IFRS 3 R all acquisition related costs are expensed in the period incurred rather than added to the cost of investment.

## 6 FINANCE INCOME AND COSTS

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Interest receivable | 15 | 29 |
| Bank loans interest payable | (189) | (353) |
| Bank loan facility fee amortisation | (85) | (85) |
| Fair value gain / (loss) on financial liabilities recognised in profit or loss | (42) | 96 |
| Exit charges from derivatives | - | (144) |
| Net finance costs | (301) | (457) |

## 7 DIVIDENDS

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Final dividend paid in respect of the year ended 31 October 2009 and 31 October 2008 | 413 | 395 |
| Pence per ordinary share | 0.12p | 0.115p |
| Interim dividend paid in respect of the year ended 31 October 2010 and 31 October 2009 | 344 | 277 |
| Pence per ordinary share | 0.10p | 0.08p |

The directors have proposed the payment of a final dividend of 0.35p per share, which would amount to £1,205,000 (2009: 0.12p).

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 8 INCOME TAX

The tax charge is made up as follows:

| | 2010 £000 | 2009 £000 |
|---|---|---|
| **Current tax** | | |
| Corporation tax on profits for the period | 1,909 | 1,637 |
| Over provision in respect of prior periods | (37) | (384) |
| Total current tax | 1,872 | 1,253 |
| | | |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | (373) | (321) |
| Amortisation of intangibles difference in tax rate | (198) | - |
| Adjustments in respect of prior periods | 4 | 88 |
| Total deferred tax | (567) | (233) |
| | | |
| Total tax charge | 1,305 | 1,020 |

Unrelieved trading losses of £116,000 (2009: £116,000) which, when calculated at the standard rate of corporation tax in the United Kingdom of 28% (2009: 28%), amounts to £32,000 (2009: £32,000). These remain available to offset against future taxable trading profits.

Factors affecting the tax charge in the period:

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Profit before taxation | 4,943 | 4,479 |
| | | |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28% (2009: 28%) | 1,384 | 1,254 |
| | | |
| Effects of: | | |
| Expenses not deductible for tax purposes | 156 | 49 |
| Marginal relief | (4) | - |
| Share based payments | - | (62) |
| Prior year deferred tax | 4 | - |
| Difference in deferred tax rate | (198) | (2) |
| Adjustments to tax charge in respect of prior year | (37) | (296) |
| Net movement on deferred tax on intangibles | - | 77 |
| | 1,305 | 1,020 |

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 9 EARNINGS PER SHARE

The earnings per ordinary share is calculated by reference to the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during each period, as follows:

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Profit for the year | 3,638 | 3,459 |
| **Basic earnings per share** | | |
| Weighted average number of shares in issue | 341,003,888 | 342,706,522 |
| Basic earnings per share | 1.07p | 1.01p |
| Weighted average number of shares in issue | 341,003,888 | 342,706,522 |
| Add back: | | |
| Treasury shares | 2,525,500 | 928,069 |
| ESOP shares | 628,978 | 523,775 |
| Allotted, called up and fully paid share capital | 344,158,366 | 344,158,366 |
| **Diluted earnings per share** | | |
| Weighted average number of shares in issue used in basic earnings per share calculation | 341,003,888 | 342,706,522 |
| Dilutive share options | 5,841,718 | 3,890,563 |
| Weighted average number of shares in issue used in dilutive earnings per share calculation | 346,845,606 | 346,597,085 |
| Diluted earnings per share | 1.05p | 1.00p |
| **Normalised earnings per share** | | |
| Add back: | | |
| Amortisation | 2,260 | 1,112 |
| Impairment | - | 533 |
| Share option costs | 185 | 99 |
| Corporate finance costs | 438 | - |
| Restructuring costs | 187 | 427 |
| Tax effect | (737) | (459) |
| Normalised profit for year | 5,971 | 5,171 |
| Weighted average number of shares in issue | 341,003,888 | 342,706,522 |
| Normalised earnings per share | 1.75p | 1.51p |
| Normalised diluted earnings per share | 1.72p | 1.49p |

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 10 PROPERTY, PLANT AND EQUIPMENT

| | Computer hardware £000 | Fixtures, fittings and equipment £000 | Library books and journals £000 | Total £000 |
|---|---|---|---|---|
| Cost | | | | |
| At 1 November 2008 | 1,492 | 833 | 488 | 2,813 |
| Additions | 467 | 8 | 120 | 595 |
| Additions on acquisition | 26 | 8 | - | 34 |
| At 31 October 2009 | 1,985 | 849 | 608 | 3,442 |
| Additions | 246 | 3 | 60 | 309 |
| Additions on acquisition | 1 | - | - | 1 |
| Disposals | (1,464) | (571) | (518) | (2,553) |
| At 31 October 2010 | 768 | 281 | 150 | 1,199 |
| Depreciation | | | | |
| At 1 November 2008 | 1,346 | 550 | 417 | 2,313 |
| Provided in the year | 167 | 139 | 66 | 372 |
| At 31 October 2009 | 1,513 | 689 | 483 | 2,685 |
| Provided in the year | 304 | 70 | 29 | 403 |
| Eliminated on disposal | (1,340) | (570) | (483) | (2,393) |
| At 31 October 2010 | 477 | 189 | 29 | 695 |
| Net book amount at 31 October 2010 | 291 | 92 | 121 | 504 |
| Net book amount at 31 October 2009 | 472 | 160 | 125 | 757 |
| Net book amount at 1 November 2008 | 146 | 283 | 71 | 500 |

The Group has pledged the above assets to secure banking facilities granted to the Group.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 11 INTANGIBLE ASSETS

| | Goodwill £000 | Customer relationships £000 | Trade names £000 | Software £000 | Development costs £000 | Database £000 | Order backlog £000 | Total £000 |
|---|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | | |
| At 1 November 2008 | 20,765 | 7,020 | 3,020 | 3,890 | 506 | - | - | 35,201 |
| Additions on acquisition | 903 | 254 | 205 | - | - | 406 | - | 1,768 |
| Additions | - | - | - | 45 | 419 | - | - | 464 |
| Fair value adjustment | 134 | - | - | - | - | - | - | 134 |
| At 31 October 2009 | 21,802 | 7,274 | 3,225 | 3,935 | 925 | 406 | - | 37,567 |
| Additions | - | - | - | 304 | 570 | - | - | 874 |
| Additions on acquisition | 4,394 | 3,621 | 588 | 449 | - | 155 | 4,200 | 13,407 |
| At 31 October 2010 | 26,196 | 10,895 | 3,813 | 4,688 | 1,495 | 561 | 4,200 | 51,848 |
| **Amortisation and impairment losses** | | | | | | | | |
| At 1 November 2008 | 2,032 | 498 | 215 | 543 | 26 | - | - | 3,314 |
| Impairment | 533 | - | - | - | - | - | - | 533 |
| Amortisation for the year | - | 369 | 162 | 390 | 150 | 41 | - | 1,112 |
| At 31 October 2009 | 2,565 | 867 | 377 | 933 | 176 | 41 | - | 4,959 |
| Amortisation for the year | - | 577 | 201 | 527 | 244 | 96 | 615 | 2,260 |
| At 31 October 2010 | 2,565 | 1,444 | 578 | 1,460 | 420 | 137 | 615 | 7,219 |
| Carrying amount at 31 October 2010 | 23,631 | 9,451 | 3,235 | 3,228 | 1,075 | 424 | 3,585 | 44,629 |
| Carrying amount at 31 October 2009 | 19,237 | 6,407 | 2,848 | 3,002 | 749 | 365 | - | 32,608 |
| Carrying amount at 1 November 2008 | 18,733 | 6,522 | 2,805 | 3,347 | 480 | - | - | 31,887 |

During the year, goodwill was reviewed for impairment in accordance with IAS 36, Impairment of assets. Impairment charges of £Nil (2009: £533,000) arose as a result of this review. The impairment charge in 2009 related to the Consulting division of TFPL, included within the Solutions business.

### MDA

On 1 March 2010 the Group acquired 11 long-term managed service contracts for the provision of land and property information solutions to UK Local Authorities for a consideration of £2.9m. This was funded from existing cash resources. These contracts have been categorised as a backlog order book within intangible assets.

The Group has taken over provision of the on-going managed-services under the contracts, where initial implementation has been successfully completed. The agreements are part of the government's Local Authority Modernisation Programme and have estimated lifetime revenues of £7.2m.

# Notes to the Accounts cont'd

## For the year ended 31 October 2010

The remaining useful lives and carrying value of the above intangibles assets is as follows:

| | 2010 Remaining amortisation period (years) | 2009 Remaining amortisation period (years) | 2010 Carrying value £000 | 2009 Carrying value £000 |
|---|---|---|---|---|
| **CAPS intangibles:** | | | | |
| Customer relationships | 16.5 | 17.5 | 4,837 | 5,130 |
| Trade names | 16.5 | 17.5 | 2,060 | 2,185 |
| Software | 6.5 | 7.5 | 1,980 | 2,285 |
| **Plantech intangibles:** | | | | |
| Customer relationships | 17 | 18 | 984 | 1,042 |
| Trade names | 17 | 18 | 442 | 468 |
| Software | 7 | 8 | 588 | 672 |
| Development costs | 0.5 | 1.5 | 25 | 76 |
| **j4b intangibles:** | | | | |
| Customer relationships (product) | 3.5 | 4.5 | 87 | 112 |
| Customer relationships (project) | 8.5 | 9.5 | 110 | 124 |
| Trade names | 8.5 | 9.5 | 175 | 195 |
| Database | 3.5 | 4.5 | 284 | 365 |
| **GRANTfinder intangibles** | | | | |
| Trade name | 9.5 | - | 221 | - |
| Database | 4.5 | - | 140 | - |
| Customer contracts and relationships | 4.5 | - | 1,170 | - |
| Order backlog | 4.5 | - | 1,170 | - |
| **Strand intangibles** | | | | |
| Trade name | 9.75 | - | 337 | - |
| Software | 4.75 | - | 422 | - |
| Customer relationships | 4.75 | - | 2,263 | - |
| **LAMP contracts intangibles** | | | | |
| Backlog order book | 10 | - | 2,415 | - |
| **Intelligent Resources intangibles** | | | | |
| Software | 4 | 5 | 36 | 45 |

# Notes to the Accounts cont'd

For the year ended 31 October 2010

| | 2010 Remaining amortisation period (years) | 2009 Remaining amortisation period (years) | 2010 Carrying value £000 | 2009 Carrying value £000 |
|---|---|---|---|---|
| **Development costs** | 5 | 5 | 1,050 | 673 |
| **Software costs** | 3 | - | 202 | - |

**Impairment test for goodwill**
For this review goodwill was allocated to individual Cash Generating Units (CGU) on the basis of the Group's operations. The carrying value of goodwill by each CGU is as follows:

| | 2010 £000 | 2009 £000 |
|---|---|---|
| **Cash Generating Units (CGU)** | | |
| Software | 17,870 | 15,970 |
| Idox Information Solutions | 3,804 | 1,310 |
| TFPL Recruitment | 1,957 | 1,957 |
| | 23,631 | 19,237 |

The recoverable amount of all CGU's has been determined using value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering the next five financial years. Cash flows beyond this period are extrapolated using the estimated growth rates stated below.

For value in use calculations, the growth rates and margins used to estimate future performance are based on management's best estimate of short term performance based on an assessment of market opportunities and macro economic conditions. In the year to 31 October 2010 and the year to 31 October 2009, the Weighted Average Cost of Capital for the Group has been used as an appropriate discount rate to apply to cash flows. This represents the overall required return on the Group as a whole and is also considered appropriate to each CGU.

The assumptions used for the value in use calculations are as follows and are considered appropriate for each of the risk profiles of the respective CGU:

| | 2010 | 2009 |
|---|---|---|
| Discount rate | 12.5% | 12.5% |
| Growth rate | 2% | 2% |

These assumptions have been used for the analysis of each CGU.

Sensitivities have been run on cash flow forecasts for all CGU's. Management are satisfied that the key assumptions are achievable and that reasonably possible changes to those key assumptions would not lead to the carrying amount of the relevant CGU exceeding the recoverable amount.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 12 FINANCIAL ASSETS AND LIABILITIES

### Categories of financial assets and liabilities

The disclosures detailed below are as required by IFRS 7 Financial Instruments: Disclosures. The carrying amounts presented on the Balance Sheet relate to the following categories of assets and liabilities:

| Financial assets | Note | 2010<br>£000 | 2009<br>£000 |
|---|---|---|---|
| **Available-for-sale financial assets** | | | |
| Securities and debentures | 13 | 855 | - |
| **Loans and receivables:** | | | |
| Trade and other receivables | 15 | 5,093 | 5,648 |
| Cash and cash equivalents | 14 | 2,004 | 6,947 |
| | | 7,097 | 12,595 |

| Financial liabilities | Note | 2010<br>£000 | 2009<br>£000 |
|---|---|---|---|
| Financial liabilities measured at amortised cost: | | | |
| Non-current: | 19 | 1,866 | 2,781 |
| Borrowings | | 1,866 | 2,781 |
| Current: | | | |
| Borrowings | 19 | 1,000 | 1,000 |
| Trade and other payables | 16 | 2,784 | 3,171 |
| | | 3,784 | 4,171 |

## 13 OTHER LONG TERM FINANCIAL ASSETS

Other long-term financial assets include the following investments, in accordance with the fair value hierarchy these are defined as level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| **Securities and debentures** | | |
| Listed equity securities | 855 | - |

The assets are stated at fair value. The listed securities are traded on the London stock exchange. Fair values have been determined by reference to their quoted bid price at the reporting date.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 14 CASH AND CASH EQUIVALENTS

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Cash at bank and in hand | 2,004 | 6,947 |
| Cash and cash equivalents per cash flow statements | 2,004 | 6,947 |

## 15 TRADE AND OTHER RECEIVABLES

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Trade receivables, gross | 4,778 | 4,508 |
| Allowance for credit losses | (269) | (380) |
| Trade receivables, net | 4,509 | 4,128 |
| Amounts recoverable on contracts | 484 | 1,360 |
| Other receivables | 100 | 160 |
| Financial assets | 5,093 | 5,648 |
| | | |
| Prepayments and accrued income | 822 | 814 |
| Non-financial assets | 822 | 814 |
| Trade and other receivables | 5,915 | 6,462 |

All of the closing Group trade receivables are in UK Sterling with the exception of j4b Nederland B.V. (117,000 Euros; 2009: 72,726 Euros). Amounts recoverable on contracts represent work completed and delivered to the customer, but due to the contractual payment terms have not yet been invoiced.

### Credit quality of financial assets

The maximum exposure for the Group to credit risk for trade receivables at the reporting date by type of customer was:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Local authorities and other public bodies | 3,578 | 3,574 |
| Private companies | 1,200 | 934 |
| | 4,778 | 4,508 |

# Notes to the Accounts cont'd

## For the year ended 31 October 2010

The ageing of trade receivables at the reporting date for the Group was:

| | Gross 2010 £000 | Impairment 2010 £000 | Gross 2009 £000 | Impairment 2009 £000 |
|---|---|---|---|---|
| Not past due | 3,411 | - | 2,838 | - |
| Past due 0 to 30 days | 268 | - | 414 | - |
| Past due 31 to 60 days | 31 | - | 80 | - |
| More than 61 days | 1,068 | 269 | 1,176 | 380 |
| | 4,778 | 269 | 4,508 | 380 |

Movements in the provision for impairment of receivables for the Group were as follows:

| | 2010 £000 | 2009 £000 |
|---|---|---|
| At 1 November | 380 | 492 |
| Charge for the year | 65 | 26 |
| Utilised | (176) | (138) |
| At 31 October | 269 | 380 |

The provision allowance in respect of trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible. At that point the amounts are considered irrecoverable and are written off against the trade receivable directly. Where trade receivables are past due an assessment is made of individual customers and the outstanding balance. No provision is required in respect of amounts owed by group undertakings.

The credit quality of the holders of the Cash at bank is AA and AAA rated.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 16 TRADE AND OTHER PAYABLES

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Trade payables | 1,346 | 1,281 |
| Accruals | 1,438 | 1,890 |
| | 2,784 | 3,171 |

The carrying values of trade and other payables are considered to be a reasonable approximation of fair value. Accruals represent liabilities which have been recognised at the balance sheet date. This amount will reduce the invoices and payments to which the balance relates are received and paid. The majority of this will be released during the next six months.

## 17 OTHER LIABILITIES

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Social security and other taxes | 424 | 450 |
| Other payables | 1,969 | 775 |
| Deferred income | 9,401 | 6,913 |
| | 11,794 | 8,138 |

Deferred income represents software revenue where billing milestones have been reached but the appropriate proportion of work has not been completed and maintenance and subscription revenues which are spread over the period, typically one year, for which the service is supplied.

## 18 PROVISIONS

| | 2010 £000 | 2009 £000 |
|---|---|---|
| At 1 November | 138 | 370 |
| Provision made during the year | 8 | 138 |
| Provision released during the year | - | (147) |
| Provision utilised during the year | (13) | (223) |
| At 31 October | 133 | 138 |

The opening and closing provisions relate to estimated dilapidation costs expected to arise on exit of leased properties.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

### 19 BORROWINGS

All borrowings are held at amortised cost and after set-off for unamortised loan facility fees are summarised as follows:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| **Current** | | |
| Bank borrowings | 1,000 | 1,000 |
| **Non-current** | | |
| Bank borrowings | 1,866 | 2,781 |
| Total borrowings | 2,866 | 3,781 |

The average interest rate paid was 4.28% (2009: 6.51%). Bank borrowings of £2,866,000 (2009: £3,781,000) were arranged at floating interest rates.

As security for the above loans, the Bank of Scotland plc holds a bond and floating charge over the assets of the Group, a composite guarantee supported by each Group company and a share pledge in respect of the entire issued share capital of each subsidiary company.

The loans are repayable in six monthly installments. Interest on the loans is payable quarterly in arrears.

The directors' estimate that the fair value of the Group's borrowing is not significantly different to the carrying value.

### 20 DEFERRED INCOME TAX

Deferred tax assets and liabilities are summarised as follows:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Deferred tax assets | 283 | 315 |
| Deferred tax liabilities (non current) | (4,549) | (3,501) |
| | (4,549) | (3,501) |

# Notes to the Accounts cont'd

## For the year ended 31 October 2010

The movement in the year in the net deferred tax provision was as follows:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| At 1 November | (3,186) | (3,277) |
| Credit to income for the year | 375 | 308 |
| Credit to equity | (4) | 25 |
| Adjustment for changes in rate | 198 | - |
| Charged to goodwill for the year | (1,649) | (242) |
| At 31 October | (4,266) | (3,186) |

The movement in deferred income tax assets and liabilities during the year, is as follows:

| | Share-based payments<br>£000 | Other temporary differences<br>£000 | Total deferred tax asset<br>£000 | Accelerated tax depreciation<br>£000 | Total deferred tax liability<br>£000 |
|---|---|---|---|---|---|
| At 1 November 2008 | 21 | 244 | 265 | (3,542) | (3,542) |
| Charge/(credit) to income | 63 | (38) | 25 | 283 | 283 |
| Charge/(credit) to equity | 25 | - | 25 | - | - |
| Deferred tax recognised on acquisition | - | - | - | (242) | (242) |
| At 31 October 2009 | 109 | 206 | 315 | (3,501) | (3,501) |
| Charge/(credit) to income | - | (32) | (32) | 407 | 407 |
| Charge/(credit) to equity | - | - | - | (4) | (4) |
| Changes in rate | - | - | - | 198 | 198 |
| Deferred tax recognised on acquisition | - | - | - | (1,649) | (1,649) |
| At 31 October 2010 | 109 | 174 | 283 | (4,549) | (4,549) |

There were no unprovided deferred tax assets at 31 October 2010 or 31 October 2009.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 21 RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents, short term deposits and bank borrowings. The main purpose of these financial instruments is to finance the Group's operations. The Group has other financial instruments which mainly comprise trade receivables and trade payables which arise directly from its operations.

Risk management is carried out by the finance department under policies approved by the board of directors. The Group finance department identifies, evaluates and manages financial risks. The board provides guidance on overall risk management including foreign exchange risk, interest rate risk, credit risk, and investment of excess liquidity.

The impact of the risks required to be discussed under IFRS 7 are detailed below:

### Market risk

(i) Foreign exchange risk
Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the group's functional currency. The Group has minimal exposure to foreign exchange risk.

(ii) Price risk
The Group is exposed to equity securities price risk due to investments held by the group. The group is not exposed to commodity price risk.

(iii) Cash flow and fair value interest rate risk
The Group is exposed to interest rate risk in respect of cash balances held with banks and other highly rated counterparties.

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. During 2010 and 2009, all the group's borrowings at variable rate were denominated in UK Sterling.

### Credit risk

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Cash and cash equivalents | 2,004 | 6,947 |
| Trade receivables | 4,509 | 4,128 |
| Amounts recoverable on contracts | 484 | 1,360 |
| Assets available for sale | 855 | - |
| Other receivables | 100 | 160 |
| Financial assets at fair value | 7,952 | 12,595 |

Credit risk is managed on a group basis. Credit risks arise from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

The Group's credit risk is primarily attributable to its trade receivables. It is the policy of the Group to present the amounts in the balance sheet net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment. The Group reviews the reliability of its customers on a regular basis, such a review takes into account the nature of and the Group's trading history with the customer.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

The credit risk on liquid funds is limited because the counterparties are three banks with high credit-ratings assigned by international credit-rating agencies. Management does not expect any losses from non-performance of these counterparties.

None of the Group's financial assets are secured by collateral or other credit enhancements.

**Liquidity risk**
The Group closely monitors its access to bank and other credit facilities in comparison to its outstanding commitments on a regular basis to ensure that it has sufficient funds to meet obligations of the group as they fall due.

The board receives regular debt management forecasts which estimate the cash inflows and outflows over the next twelve months, so that management can ensure that sufficient financing is in place as it is required. Surplus cash within the Group is put on deposit in accordance with limits and counterparties agreed by the Board, the objective being to maximise return on funds whilst ensuring that the short-term cashflow requirements of the Group are met.

Detailed analysis of the debt facilities taken out and available to the group are disclosed in note 19.

As at 31 October 2010, the Group's financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

| | Current | Current | Non-current | Non-current |
|---|---|---|---|---|
| | Within 6 months | 6 – 12 months | 1 – 5 years | Later than 5 years |
| | £000 | £000 | £000 | £000 |
| Bank borrowings | 565 | 553 | 2,095 | - |
| Trade and other payables | 2,784 | - | - | - |

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows:

| | Current | Current | Non-current | Non-current |
|---|---|---|---|---|
| | Within 6 months | 6 – 12 months | 1 – 5 years | Later than 5 years |
| | £000 | £000 | £000 | £000 |
| Bank borrowings | 592 | 661 | 3,345 | - |
| Trade and other payables | 3,171 | - | - | - |

The above amounts reflect the contractual undiscounted cashflows, which may differ from the carrying values of the liabilities at the reporting date.

If interest rates increased by 1%, the contractual undiscounted cashflows would increase by £45,000.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

**Capital risk management**
The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

Capital for the reporting periods under review is summarised as follows:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Total equity | 31,012 | 28,173 |
| Less unrestricted cash and cash equivalents (note 14) | (2,004) | (6,947) |
| | 29,008 | 21,226 |
| Total equity | 31,012 | 28,173 |
| Borrowings | 2,866 | 3,781 |
| | 33,878 | 31,954 |
| Capital-to-overall financing ratio | 0.86 | 0.66 |

## 22 SHARE CAPITAL

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Authorised: | | |
| 650,000,000 ordinary shares of 1p each (2009: 650,000,000) | 6,500 | 6,500 |
| Allotted, called up and fully paid | | |
| As at 1 November and 31 October | 3,442 | 3,442 |
| 344,158,366 ordinary shares of 1p each (2009: 344,158,366) | 3,442 | 3,442 |

**Movement in issued share capital in the year**
During the year to 31 October 2010, one employee exercised share options.

The company has one class of ordinary shares which carry no right to fixed income.

At 31 October 2010, there were 670,953 (2009: 572,244) shares in issue under ESOP. During the year the average issue share price was 11.2p (2009: 10.8p).

At 31 October 2010 there were 3,838,000 shares held in treasury.

# Notes to the Accounts cont'd

For the year ended 31 October 2010

**23 SHARE OPTIONS**

The company has an unapproved share option scheme for all employees (including directors). All share options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is usually quarterly from the date of grant. The options are settled in equity once exercised.

Details of all share options over 1p Ordinary shares, falling within the measurement and recognition criteria of IFRS 2 "Share-based Payment", including their contractual life and exercise prices are as follows:

| At start of year | Granted | Exercised | At end of year | Exercise price | Exercise date from | Exercise date to |
|---|---|---|---|---|---|---|
| 4,500,000 | | - | 4,500,000 | 6.50p | Feb 2007 | Oct 2011 |
| 4,500,000 | | - | 4,500,000 | 9.00p | Feb 2007 | Oct 2014 |
| 2,366,000 | | (300,000) | 2,066,000 | 7.50p | May 2007 | May 2017 |
| 615,385 | | - | 615,385 | 8.125p | Jun 2007 | Jun 2017 |
| 550,000 | | - | 550,000 | 15.00p | Dec 2007 | Dec 2017 |
| 960,000 | | - | 960,000 | 12.50p | May 2008 | May 2018 |
| 1,192,308 | | - | 1,192,308 | 13.00p | Aug 2008 | Aug 2018 |
| 1,033,334 | | - | 1,033,334 | 15.00p | Aug 2008 | Aug 2018 |
| - | 8,105,366 | - | 8,105,366 | 10.25p | Mar 2010 | Mar 2020 |
| 15,717,027 | 8,105,366 | (300,000) | 23,522,393 | | | |

The following table sets out the number of share options and associated WAEP outstanding during the year.

| | 2010 No | 2010 WAEP Pence | 2009 No | 2009 WAEP Pence |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 15,717,027 | 8.13 | 16,017,027 | 8.13 |
| Granted during the year | 8,105,366 | 10.25 | - | - |
| Exercised during the year | (300,000) | 7.5 | (300,000) | 7.5 |
| Forfeited during the year | - | | - | - |
| Outstanding at the end of the year | 23,522,393 | 9.55 | 15,717,027 | 8.13 |
| Exercisable at the end of the year | 15,922,578 | | 11,564,029 | 11.75 |

The share options outstanding at the end of the year have a weighted average remaining contractual life of 5 years. The share options exercised during the year had a weighted average share price of 11.62p.

# Notes to the Accounts cont'd

## For the year ended 31 October 2010

The fair values were calculated using the Black-Schöles Pricing Model and the following information.

| Date of issue | Number granted No. | Weighted average share price pence | Weighted average exercise price pence | Expected volatility % | Expected life Years | Risk free rate % | Expected dividend yield % | Weighted average fair value at grant date £ |
|---|---|---|---|---|---|---|---|---|
| Mar 2010 | 8,105,366 | 10.60 | 10.25 | 45.00 | 10.00 | 5.00 | 0.60 | 0.06 |

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.
The company recognised total expenses of £185,000 (2009: £99,000) related to equity-settled share-based payment transactions during the year.

**Transitional Provisions**
Under the transitional provisions of IFRS 2 share options granted prior to 7 November 2002 but not vested at 1 November 2006 fall outside the measurement and recognition criteria of IFRS 2 "Share-based Payment".

Details of all such share options over 1p Ordinary shares, including their contractual life and exercise prices, are as follows:

| At start of the year | Lapsed | At end of the year | Exercise price | Exercise date from | Exercise date to |
|---|---|---|---|---|---|
| 1,500,000 | (1,500,000) | - | 12.75p | Nov 2001 | Jun 2010 |
| 166,667 | - | 166,667 | 12.00p | Dec 2003 | Dec 2013 |
| 1,666,667 | (1,666,667) | - | 12.00p | Jun 2002 | Dec 2005 |
| 645,159 | (645,159) | - | 15.50p | Jul 2004 | Jul 2014 |
| 1,548,387 | (129,302) | 1,419,085 | 15.50p | Feb 2002 | Nov 2012 |
| 1,863,636 | - | 1,863,636 | 11.00p | Oct 2002 | Oct 2012 |
| 173,913 | (173,913) | - | 11.50p | Oct 2006 | Oct 2016 |
| 4,000,000 | - | 4,000,000 | 10.00p | Sep 2004 | May 2014 |
| 11,564,429 | (4,115,041) | 7,449,388 | | | |

For those share options the table below summarises the number of these share options and the associated weighted average exercise price (WAEP) outstanding during the year.

| | 2010 No | 2010 WAEP Pence | 2009 No | 2009 WAEP Pence |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 11,564,429 | 11.75 | 11,564,429 | 11.75 |
| Lapsed during the year | (4,115,041) | 12.91 | - | - |
| Outstanding at the end of the year | 7,449,388 | 11.34 | 11,564,429 | 11.75 |
| Exercisable at the end of the year | 7,449,388 | 11.34 | 11,564,429 | 11.75 |
| Exercisable at the end of the year | 11,564,429 | - | 11,564,429 | 11.75 |

# Notes to the Accounts cont'd

For the year ended 31 October 2010

## 24 ACQUISITIONS

**GRANTfinder**
On 4 May 2010, the Group acquired the entire share capital of GRANTfinder Limited for a consideration of £3.3m, which was satisfied as detailed below.

GRANTfinder is an important provider of value-added databases for government and EU funding information to a wide range of UK public and private customers. The acquisition will extend the capabilities of the Idox group with additional value-added content and boost its subscription-based recurring revenue stream. GRANTfinder will be easily integrated into the enlarged Idox Information Solutions Business which includes j4b Software & Publishing Limited, acquired in 2009, and the longstanding planning content business. This will deliver a market leading position in the provision of grant related information in the UK.

Goodwill arising on the acquisition of GRANTfinder Limited has been capitalised and consists largely of the workforce value, synergies and economies of scale expected from combining the operations of GRANTfinder with Idox Information Solutions Limited. None of the goodwill recognised is expected to be deductible for income tax purposes. The purchase of GRANTfinder Limited has been accounted for using the acquisition method of accounting.

| | Book value £000 | Fair value adjustments £000 | Fair value £000 |
|---|---|---|---|
| Intangible assets | 59 | 2,929 | 2,988 |
| Property, plant and equipment | 7 | - | 7 |
| Trade receivables | 299 | - | 299 |
| Other receivables | 108 | - | 108 |
| Cash at bank | 51 | - | 51 |
| TOTAL ASSETS | 524 | 2,929 | 3,453 |
| | | | |
| Trade payables | (13) | - | (13) |
| Deferred revenue | - | (1,627) | (1,627) |
| Social security and other taxes | (161) | - | (161) |
| Accruals | (24) | (15) | (39) |
| Deferred tax liability | - | (806) | (806) |
| TOTAL LIABILITIES | (198) | (2,448) | (2,646) |
| NET ASSETS | 326 | 481 | 807 |
| Purchased goodwill capitalised | | | 2,494 |
| | | | 3,301 |
| Satisfied by: | | | |
| Cash to vendor | | | 2,793 |
| Director's loan account | | | 108 |
| Deferred consideration | | | 400 |
| Total consideration | | | 3,301 |

# Notes to the Accounts cont'd

For the year ended 31 October 2010

The fair values stated above are provisional. The fair value adjustment for the intangible assets relates to trade names, customer relationships, database and order backlog. A related deferred tax liability has also been recorded as a fair value adjustment.

Other adjustments were made to the revenue recognition policy for subscription income in order to bring it in line with group policy.

The revenue included in the consolidated statement of comprehensive income since 4 May 2010 contributed by GRANTfinder Limited was £775k. GRANTfinder Limited also contributed profit of £106k over the same period.

Had GRANTfinder Limited been consolidated from 1 November 2009, the beginning of the Group's financial year, the consolidated statement of comprehensive income would have included revenue of £1,769k and profit of £320k.

**Strand Electoral Management Services Limited**
On 29 July 2010, the Group acquired the entire share capital of Strand Electoral Management Services Limited for a consideration of £4.4m, which was satisfied in cash.

Strand Electoral Management Services Limited, is one of the UK's leading providers of electoral management software and services, supplying 116 local authorities that cover a voting population of 13 million people.

The acquisition of Strand Electoral Management Services Limited is an important strategic addition for Idox, enabling it to enter another very active local government market with a strong suite of products and good opportunities for growth through cross selling.

Goodwill arising on the acquisition of Strand Electoral Management Services Limited has been capitalised and consists largely of the workforce value, synergies and economies of scale expected from combining the operations of Strand Electoral Management Services Limited with Idox Software Limited. None of the goodwill recognised is expected to be deductible for income tax purposes. The purchase of Strand Electoral Management Services Limited has been accounted for using the acquisition method of accounting.

| | Book value £000 | Fair value adjustments £000 | Fair value £000 |
|---|---|---|---|
| Intangible assets | 159 | 2,961 | 3,120 |
| Property, plant and equipment | 2 | - | 2 |
| Trade receivables | 3 | - | 3 |
| Other receivables | 99 | - | 99 |
| Cash at bank | 1,207 | - | 1,207 |
| TOTAL ASSETS | 1,470 | 2,961 | 4,431 |
| Trade payables | (167) | - | (167) |
| Deferred revenue | (887) | - | (887) |
| Accruals | (33) | - | (33) |
| Deferred tax liability | - | (843) | (843) |
| TOTAL LIABILITIES | (1,087) | (843) | (1,930) |
| NET ASSETS | 383 | 2,118 | 2,501 |
| Purchased goodwill capitalised | | | 1,899 |
| | | | 4,400 |

# Notes to the Accounts cont'd

For the year ended 31 October 2010

| | Book value £000 | Fair value adjustments £000 | Fair value £000 |
|---|---|---|---|
| Satisfied by: | | | |
| Cash to vendor | | | 3,900 |
| Deferred consideration | | | 500 |
| Total consideration | | | 4,400 |

The fair values stated above are provisional. The fair value adjustment for the intangible assets relates to trade names, software and customer relationships. A related deferred tax liability has also been recorded as a fair value adjustment.

The revenue included in the consolidated statement of comprehensive income since 29 July 2010 contributed by Strand Electoral Management Services Limited was £344k. Strand Electoral Management Services Limited also contributed profit of £102k over the same period.

Had Strand Electoral Management Services Limited been consolidated from 1 November 2009, the beginning of the Group's financial year, the consolidated statement of comprehensive income would have included revenue of £1,565k and profit of £139k.

### 25 OPERATING LEASE COMMITMENTS

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| The group | 2010 £000 | 2009 £000 |
|---|---|---|
| Amounts due: | | |
| Within one year | 196 | 120 |
| Between one and five years | 164 | 403 |
| After five years | - | - |
| | 360 | 523 |

Operating lease payments represent rentals payable by the Group for office premises and motor vehicle leasing charges.

### 26 CAPITAL COMMITMENTS

The Group had no capital commitments at 31 October 2010 (2009: £Nil).

### 27 CONTINGENT LIABILITIES

The Company has agreed to provide continuing financial support to its subsidiary undertakings, Idox Software Limited, Idox Information Solutions Limited and TFPL Limited. There were no material Group contingent liabilities at 31 October 2010 or 31 October 2009.

# Notes to Accounts cont'd

For the year ended 31 October 2010

## 28 POST BALANCE SHEET EVENTS

The Group signed a short term working capital banking facility of £6m on 10 December 2010.

On 13 December 2010, the Group announced the acquisition of McLaren Software Group Limited for £1.0m in cash. McLaren is a leading supplier of engineering document management and control applications serving many leading international companies in industries including oil & gas, mining, utilities, pharmaceuticals and transportation.

McLaren had revenues of £6.4m for the year ended 31 December 2009, with an operating profit of £0.4m and a loss before taxation of £1m resulting from the pre-acquisition capital structure. Net liabilities at completion are expected to be £1.3m.

The acquisition of McLaren extends Idox's core skills in planning and building documents management into the related area of engineering drawings. This will provide Idox with the opportunity of broadening its activities into complementary UK and international markets in both the private and public sector, particularly where the management of complex engineering systems interacts with regulatory oversight.

Full IFRS 3(R) disclosure has not been included in the financial statements due to the timing of the acquisition.

## 29 RELATED PARTY TRANSACTIONS

Remuneration paid to senior management of the group:

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Salaries and other short term employee benefits | 1,198 | 1,118 |
| Post-employment benefits | 35 | 32 |
| Share-based payments | 165 | 99 |
| | 1,398 | 1,249 |

In the year ended 31 October 2010 Martin Brooks, Chairman of Idox plc, was entitled to remuneration of £6,750 (2009: £3,938) as chairman of Cornwall Development Company, which as in the previous year he elected not to take. Cornwall Development Company Ltd is a company limited by guarantee and wholly owned by Cornwall Council. Cornwall Council is a customer of Idox Software Limited, a wholly owned subsidiary of Idox plc.

Dale Gould, an employee of the Group, owns the office premises of Strand Electoral Management Services Limited, a wholly owned subsidiary of Idox plc. Mr Gould has received £6,000 rental income from Idox plc from the date of acquisition to 31 October 2010.

# Report of the Independent Auditors

We have audited the parent company financial statements of Idox plc for the year ended 31 October 2010 which comprise the company balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

**Respective responsibilities of directors and auditors**

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

**Scope of the audit of the financial statements**

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

**Opinion on financial statements**

In our opinion the parent company financial statements:

> give a true and fair view of the state of the company's affairs as at 31 October 2010;

> have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

> have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

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

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

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

> adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

> the parent company financial statements are not in agreement with the accounting records and returns; or

> certain disclosures of directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

**Other matter**

We have reported separately on the group financial statements of Idox plc for the year ended 31 October 2010.

**Mark Cardiff**
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
25 January 2011

# Company Balance Sheet

For the year ended 31 October 2010

| | Note | 2010<br>£000 | 2009<br>£000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 5 | 43,283 | 34,541 |
| **Current assets** | | | |
| Debtors: falling due after one year | 6 | 265 | 555 |
| **Creditors: amounts falling due within one year** | 7 | (24,746) | (13,777) |
| **Net current liabilities** | | (24,481) | (13,222) |
| **Total assets less current liabilities** | | 18,802 | 21,319 |
| **Creditors: amounts falling due after more than one year** | 8 | (1,866) | (2,781) |
| **Net assets** | | 16,936 | 18,538 |
| **Capital and reserves** | | | |
| Called up share capital | 9 | 3,442 | 3,442 |
| Capital redemption reserve | 11 | 1,112 | 1,112 |
| Share premium account | 11 | 9,903 | 9,903 |
| Treasury reserve | 11 | (455) | (212) |
| Revaluation reserve | 11 | 35 | - |
| Share option reserve | 11 | 630 | 454 |
| Profit and loss account | 11 | 2,269 | 3,839 |
| **Shareholders' funds** | | 16,936 | 18,538 |

The financial statements were approved by the Board of Directors and authorised for issue on 25 January 2011 and are signed on its behalf by:

**William Edmondson**
Chief Financial Officer

**Richard Kellett-Clarke**
Chief Executive Officer

The accompanying accounting policies and notes form an integral part of these accounts.

Company name: Idox plc

Company number: 03984070

# Notes to the Company Financial Statement

For the year ended 31 October 2010

## 1 ACCOUNTING POLICIES

### Basis of preparation

The accounts have been prepared in accordance with applicable United Kingdom accounting standards and under the historical cost convention, except for the valuation of listed investments.

No profit and loss account is presented for the Company as permitted by Section 408 of the Companies Act, 2006.

The trade and assets of Idox Information Service Limited have been hived across to the fellow subsidiary company Idox Information Solutions Limited. As a result, the respective carrying value of Idox plc's investment in Idox Information Services Limited is not justified by the individual recoverable amounts of these entities. However, a true and fair override is enacted to reflect that the value of the overall trade and assets now recorded within Idox Information Solutions Limited have not diminished and therefore no overall loss of value has occurred.

### Investments

Investments, held as fixed assets, are included at cost less amounts written off for any permanent diminution in value. Investments in a UK listed company are measured at market prices. Movements in market value are recognised through the revaluation reserve.

### FRS 20 Share Based Payment

All share-based payment arrangements granted after 7 November 2002 that had not vested prior to 1 November 2006 are recognised in the financial statements.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the instrument granted to the employee. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example, profitability and sales growth targets).

Employees to whom share options have been granted provide their services in subsidiary companies of Idox plc. All equity settled share-based payments are recognised as an expense in the profit and loss account of the relevant subsidiary company. In Idox plc, the cost is allocated to investments in subsidiaries.

If vesting periods or other non-market vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest. Estimates are revised subsequently if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. No adjustment is made to any expense recognised in prior periods if share options that have vested are not exercised.

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

### Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

### Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

# Notes to the Company Financial Statement cont'd

For the year ended 31 October 2010

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

Interest and expenditure arising on financial instruments is recognised on the accruals basis and credited or charged to the profit and loss account in the financial period to which it relates. The Group does not apply FRS 26.

**Operating leases**
Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. All leases are operating in nature. Amounts paid under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

## 2 DIRECTORS AND EMPLOYEES

There are no wages and salaries paid by the parent company.

The company has no employees and directors are remunerated by other group companies. Details of the remuneration for each director are included in the Report on Remuneration which can be found on page 13 but which do not form part of the audited accounts.

## 3 DIVIDENDS

| | 2010<br>£000 | 2009<br>£000 |
|---|---|---|
| Final dividend paid in respect of the year ended 31 October 2009 and 31 October 2008 | 413 | 395 |
| Pence per ordinary share | 0.12p | 0.115p |
| Interim dividend paid in respect of the year ended 31 October 2010 and 31 October 2009 | 344 | 277 |
| Pence per ordinary share | 0.10p | 0.08p |

The directors have proposed the payment of a final dividend of 0.35p per share, which would amount to £1,205,000 (2009: 0.12p).

## 4 LOSS FOR THE FINANCIAL YEAR

The parent company has taken advantage of section 408 of the Companies Act 2006 and has not included its own profit and loss account in these financial statements. The parent company's loss for the year was £712,000 (2009: loss £589,000).

# Notes to the Company Financial Statement cont'd

For the year ended 31 October 2010

## 5 INVESTMENTS

| | Investment in group undertakings | Shares in UK listed company | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| Cost or market value | | | |
| At 1 November 2009 | 36,141 | - | 36,141 |
| Additions | 7,887 | 820 | 8,707 |
| Revaluations | - | 35 | 35 |
| At 31 October 2010 | 44,028 | 855 | 44,883 |
| Amounts written off | | | |
| At 1 November 2009 | 1,600 | - | 1,600 |
| Provided in the year | - | - | - |
| At 31 October 2010 | 1,600 | - | 1,600 |
| Net book amount | | | |
| At 31 October 2010 | 42,428 | 855 | 43,283 |
| At 31 October 2009 | 34,541 | - | 34,541 |

At 31 October 2010 the company held more than 10% of the allotted share capital of the following companies:

| | Country of registration | Class of share held | Proportion held | Nature of business |
|---|---|---|---|---|
| Idox Software Limited (formerly i-documentsystems Limited) | England | Ordinary | 100% | Software services |
| Idox Information Services Limited | England | Ordinary | 100% | Information services |
| TFPL Limited | England | Ordinary | 100% | Recruitment services |
| CAPS Solutions Limited | England | Ordinary | 100% | Dormant company |
| i-documentsystems Trustees Limited | England | Ordinary | 100% | Corporate trustee of Employee share ownership trust |
| GRANTfinder Limited | England | Ordinary | 100% | Information services |
| Strand Electoral Management Services Limited | England | Ordinary | 100% | Software services |
| j4b Nederland BV | Holland | Ordinary | 100% | Information services |
| i-documentsystems Limited (formerly IDOX Software Limited) | England | Ordinary | 100% | Dormant company |
| Information into Intelligence Limited* | England | Ordinary | 100% | Dormant company |
| The Planning Exchange Limited | England | Ordinary | 100% | Dormant company |
| Nettgain Solutions Limited | England | Ordinary | 100% | Dormant company |

# Notes to the Company Financial Statement cont'd

For the year ended 31 October 2010

| | Country of registration | Class of share held | Proportion held | Nature of business |
|---|---|---|---|---|
| Mandoforms Limited | England | Ordinary | 100% | Dormant company |
| Idox Information Solutions Limited (formerly j4b Software & Publishing Limited) | England | Ordinary | 100% | Information services |
| Plantech Limited | England | Ordinary | 100% | Dormant company |
| Wastedocs Limited** | Scotland | Ordinary | 100% | Dormant company |

All subsidiaries have been consolidated in the Group accounts.

* Dissolved 2 November 2010
** Dissolved on 19 November 2010

## 6 DEBTORS

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Amounts owed by group undertakings | 265 | 555 |
| | 265 | 555 |

Included in the above for the company is £265,000 (2009: £422,000) which is due after more than one year. The directors consider this loan to be recoverable.

## 7 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Bank loan | 1,000 | 1,000 |
| Amounts owed to group undertakings | 22,822 | 12,549 |
| Other creditors | 790 | 3 |
| Accruals and deferred income | 134 | 225 |
| | 24,746 | 13,777 |

## 8 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Bank loan | 1,866 | 2,781 |

As security for the above loans, the Bank of Scotland plc holds a floating charge over the assets of the Group, a composite guarantee supported by each Group company and a share pledge in respect of the entire issued share capital of each subsidiary company.

The loans are repayable in six monthly installments.

Interest on the loans is payable quarterly in arrears. The interest rate charged is 4% above LIBOR.

# Notes to the Company Financial Statement cont'd

For the year ended 31 October 2010

## 9 SHARE CAPITAL

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Authorised: | | |
| 650,000,000 ordinary shares of 1p each (2009: 650,000,000) | 6,500 | 6,500 |
| Allotted, called up and fully paid at 1 November 2009 and 31 October 2010 | 3,442 | 3,442 |
| 344,158,366 ordinary shares of 1p each (2009: 344,158,366) | 3,442 | 3,442 |

### Movement in Issued Share Capital in the Year

The company has one class of ordinary shares which carry no right to fixed income.

During the year 2,250,000 shares (2009: 1,888,000) were bought back into Treasury at an average price of 10.8p (2009: 11.2p).

## 10 SHARE OPTIONS

The company has an unapproved share option scheme for all employees (including directors). All share options are exercisable at a price equal to the average market price of the company's shares on the date of grant. The vesting period is usually 1 to 3 years. The options are settled in equity once exercised.

Details of all share options over 1p Ordinary shares, falling within the measurement and recognition criteria of IFRS 2 "Share-based Payment", including their contractual life and exercise prices are as follows:

| At start of year | Granted | Exercised | At end of year | Exercise price | Exercise date from | Exercise date to |
|---|---|---|---|---|---|---|
| 4,500,000 | | - | 4,500,000 | 6.50p | Feb 2007 | Oct 2011 |
| 4,500,000 | | - | 4,500,000 | 9.00p | Feb 2007 | Oct 2014 |
| 2,366,000 | | (300,000) | 2,066,000 | 7.50p | May 2007 | May 2017 |
| 615,385 | | - | 615,385 | 8.125p | Jun 2007 | Jun 2017 |
| 550,000 | | - | 550,000 | 15.00p | Dec 2007 | Dec 2017 |
| 960,000 | | - | 960,000 | 12.50p | May 2008 | May 2018 |
| 1,192,308 | | - | 1,192,308 | 13.00p | Aug 2008 | Aug 2018 |
| 1,033,334 | | - | 1,033,334 | 15.00p | Aug 2008 | Aug 2018 |
| - | 8,105,366 | - | 8,105,366 | 10.25p | Mar 2010 | Mar 2020 |
| 15,717,027 | 8,105,366 | (300,000) | 23,522,393 | | | |

# Notes to the Company Financial Statement cont'd

For the year ended 31 October 2010

The following table sets out the number of share options and associated WAEP outstanding during the year.

| | No | 2010 WAEP Pence | No | 2009 WAEP Pence |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 15,717,027 | 8.13 | 16,017,027 | 8.13 |
| Granted during the year | 8,105,366 | 10.25 | - | - |
| Exercised during the year | (300,000) | 7.5 | (300,000) | 7.5 |
| Forfeited during the year | - | | - | - |
| Outstanding at the end of the year | 23,522,393 | 9.55 | 15,717,027 | 8.14 |
| Exercisable at the end of the year | 15,922,578 | | 11,564,429 | 11.75 |

The share options outstanding at the end of the year have a weighted average remaining contractual life of 5 years.

The fair values were calculated using the Black-Schöles Pricing Model and the following information.

| Date of issue | Number granted No. | Weighted average share price pence | Weighted average exercise price pence | Expected volatility % | Expected life Years | Risk free rate % | Expected dividend yield % | Weighted average fair value at grant date £ |
|---|---|---|---|---|---|---|---|---|
| **Mar 2010** | 8,105,366 | 10.60 | 10.25 | 45.00 | 10.00 | 5.00 | 0.60 | 0.06 |

Expected volatility was determined by calculating the historical volatility of the company's share price over the previous 3 years. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The company recognised total expenses of £185,000 (2009: £99,000) related to equity-settled share-based payment transactions during the year.

**Transitional Provisions**

Under the transitional provisions of IFRS 2 share options granted prior 7 November 2002 but not vested at 1 November 2006 fall out with the measurement and recognition criteria of IFRS 2 "Share-based Payment".

Details of all such share options over 1p Ordinary shares, including their contractual life and exercise prices, are as follows:

| At start of year | Lapsed | At end of year | Exercise price | Exercise date from | Exercise date to |
|---|---|---|---|---|---|
| 1,500,000 | (1,500,000) | - | 12.75p | Nov 2001 | Jun 2010 |
| 166,667 | - | 166,667 | 12.00p | Dec 2003 | Dec 2013 |
| 1,666,667 | (1,666,667) | - | 12.00p | Jun 2002 | Dec 2005 |
| 645,159 | (645,159) | - | 15.50p | Jul 2004 | Jul 2014 |
| 1,548,387 | (129,302) | 1,419,085 | 15.50p | Feb 2002 | Nov 2012 |
| 1,863,636 | - | 1,863,636 | 11.00p | Oct 2002 | Oct 2012 |

# Notes to the Company Financial Statement cont'd

For the year ended 31 October 2010

| At start of year | Lapsed | At end of year | Exercise price | Exercise date from | Exercise date to |
|---|---|---|---|---|---|
| 173,913 | (173,913) | - | 11.50p | Oct 2006 | Oct 2016 |
| 4,000,000 | - | 4,000,000 | 10.00p | Sep 2004 | May 2014 |
| 11,564,429 | (4,115,041) | 7,449,388 | | | |

For those share options the table below summarises the number of these share options and the associated weighted average exercise price (WAEP) outstanding during the year.

| | 2010 No | 2010 WAEP Pence | 2009 No | 2009 WAEP Pence |
|---|---|---|---|---|
| Outstanding at the beginning of the year | 11,564,429 | 11.75 | 11,564,429 | 11.75 |
| Lapsed during the year | (4,115,041) | 12.91 | - | - |
| Outstanding at the end of the year | 7,449,388 | 11.34 | 11,564,429 | 11.75 |
| Exercisable at the end of the year | 7,449,388 | 11.34 | 11,564,429 | 11.75 |

### 11 SHARE PREMIUM ACCOUNT AND RESERVES

| The company | Capital redemption reserve £000 | Share premium account £000 | Treasury reserve £000 | Revaluation reserve £000 | Share option reserve £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|---|---|---|---|
| At 1 November 2009 | 1,112 | 9,903 | (212) | - | 454 | 3,839 | 15,096 |
| Reallocation of interest rate swap costs from subsidiary | - | - | - | - | - | (96) | (96) |
| Share options reserve movement | - | - | - | - | 185 | - | 185 |
| Shares repurchased | - | - | (243) | - | - | - | (243) |
| Exercise of options from treasury reserve | - | - | - | - | (9) | (5) | (14) |
| Dividends paid | - | - | - | - | - | (757) | (757) |
| Revaluation of fixed asset investment | - | - | - | 35 | - | - | 35 |
| Loss for the year | - | - | - | - | - | (712) | (712) |
| At 31 October 2010 | 1,112 | 9,903 | (455) | 35 | 630 | 2,269 | 13,494 |

The capital redemption reserve for the Group and the Company was created during 2003 when the entire deferred ordinary share capital was bought in exchange for one ordinary 1p share. Other reserves relate to the issued share capital and share premium account in the Company's subsidiary undertaking, Idox Software Limited, and has been treated in accordance with FRS 6 under merger accounting. The share options reserve represents shares to be issued on potential exercise of those share options that have been accounted for under FRS20 (IFRS2) Share Based Payments.

The purpose of the Treasury Reserve is to enable the board to issue share options to employees.

# Notes to the Company Financial Statement cont'd

For the year ended 31 October 2010

## 12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2010 £000 | 2009 £000 |
|---|---|---|
| Loss for the financial year | (712) | (588) |
| Revaluation of investment in listed company | 35 | - |
| Dividends paid | (757) | (672) |
| Exercise of options from treasury reserve | (14) | 23 |
| Treasury shares purchased | (243) | (215) |
| Reallocation of interest rate swap costs from subsidiary | (96) | - |
| Shares option reserve movement | 185 | 90 |
| Net increase decrease in shareholders' funds | (1,602) | (1,362) |
| Shareholders' funds at 1 November 2009 | 18,538 | 19,900 |
| Shareholders' funds at 31 October 2010 | 16,936 | 18,538 |

## 13 RELATED PARTY DISCLOSURES

As the parent company of a wholly-owned group, the Company is exempt from the requirements of FRS 8 to disclose transactions with other members of the Group headed by Idox plc.

As in the prior year, no transactions with other related parties, including key management personnel, were undertaken with the company.

## 14 POST BALANCE SHEET EVENTS

The Group signed a short term working capital banking facility of £6m on 10 December 2010.

On 13 December 2010, the Group announced the acquisition of McLaren Software Group Limited for £1.0m in cash. McLaren is a leading supplier of engineering document management and control applications serving many leading international companies in industries including oil & gas, mining, utilities, pharmaceuticals and transportation.

McLaren had revenues of £6.4m for the year ended 31 December 2009, with an operating profit of £0.4m and a loss before taxation of £1m resulting from the pre-acquisition capital structure.  Net liabilities at completion are expected to be £1.3m.

The acquisition of McLaren extends Idox's core skills in planning and building documents management into the related area of engineering drawings. This will provide Idox with the opportunity of broadening its activities into complementary UK and international markets in both the private and public sector, particularly where the management of complex engineering systems interacts with regulatory oversight.

Full IFRS 3(R) disclosure has not been included in the financial statements due to the timing of the acquisition.

# Idox Plc Software and Services at a Glance

For the year ended 31 October 2010

## software

Idox is a major supplier of software solutions and information services to the public sector and the leading applications provider to local government for core functions relating to land, people and property. Over 90% of UK local authorities are customers. Idox plc is committed to providing public-sector organisations with solutions which deliver real efficiency savings benefits whilst transforming their ability to access and manage information & knowledge, documents & content, business processes & workflow as well as connecting directly with the citizen via the web.

From standalone solutions for individual functions through to integrated corporate solutions, the Company's market leading Idox, Uniform and Plantech portfolio delivers improved data quality, stream-lined information-sharing, enhanced employee productivity and increased responsiveness to public service demands.

Idox continues to work in partnership with its local authority clients extending its Managed Services expertise. UKPlanning delivers planning &

## information solutions

The Idox Information Solutions Division is an amalgamation of j4b Software & Publishing Limited, the Idox Information Service, GRANTfinder Ltd and TFPL Consulting, and provides information management, web development and online publishing services.

It specialises in the design and development of online systems to support economic development and encompasses editorial teams who are expert in researching and structuring web content. This includes major platform developments for UK government clients, including the voluntary sector finance portal Funding Central. The division has pioneered the development of innovation and knowledge transfer portals across Europe, working with the European Commission, and national and regional governments in Ireland and the UK.

Bringing together the collective strengths of the former companies j4b Software & Publishing Limited and GRANTfinder Ltd, the Division is building its reputation as Europe's leading publisher of grants and policy support information. It offers a suite of funding tools to help clients maximise their fundraising activities, with plans

## recruitment

TFPL Intelligent Resources provides recruitment services throughout the UK and internationally.

TFPL's services include executive search and selection, permanent, interim and contract placement, recruitment advertising and career management. Working across all sectors from investment banking through to the public sector, TFPL Intelligent Resources places people into specialist roles in:

- Insight and Intelligence
- Knowledge & Information Management
- Records Management
- Publishing & Content Provision

With the boundaries between analytical disciplines, information management, operational processes and information technology becoming more blurred, we specialise in finding the right people that bridge these multidisciplinary roles.

TFPL's training service offers a range of public access and bespoke training solutions, providing you with a flexible and cost effective approach to training.

One company: Infinite possibilities

## software cont'd

building control departments with a cost effective, efficient and risk free means of administering Planning and similar applications. The expertise of our staff is valued by customers who engage Idox to manage their solutions by hosted, remote or on-site managed services.

The acquisition of Strand Electoral Management Services Ltd is an important strategic addition for Idox, enabling it to enter another very active local government market with a strong suite of products and good opportunities for growth through cross selling. Strand Electoral Management Services Ltd, is one of the UK's leading providers of electoral management solutions, supplying 116 local authorities that cover a voting population of 13 million people.

The post financial year-end acquisition of McLaren Software, a Glasgow-based company with a presence in Germany and Houston, Texas, marks a step in the Group's strategy to provide its document management services to broader public and private markets in the UK and internationally. The acquisition broadens the Group's footprint into McLaren's industrial markets in pharmaceuticals, oil & gas.

## information solutions cont'd

to grow through the provision of training for organisations wishing to source funding.

The Idox Information Service is the most comprehensive information service on all aspects of policy and practice in local government. Combined with new policy information products in development, there are exciting prospects in a rapidly changing policy landscape.

TFPL Consultancy delivers high-value and cost effective advisory services to clients in all areas of knowledge, information, library, records management and information architecture. In addition we support clients with the design, deployment and roll-out of solutions using SharePoint on an application and enterprise level.

## recruitment cont'd

Our wide range of courses include:

- Knowledge management
- Information architecture & taxonomy
- Content & records management
- Records management
- Social computing
- SharePoint.

# Company Information

For the year ended 31 October 2010

| | |
|---|---|
| **Secretary and Registered Office:** | J Mackie<br>2nd Floor<br>160 Queen Victoria Street<br>London EC4V 4BF |
| **Nominated Advisor & Joint Broker:** | Investec Bank plc<br>2 Gresham Street<br>London EC2V 7QP |
| **Joint Broker:** | finnCap<br>60 New Broad Street<br>London<br>EC2M 1JJ |
| **Auditors:** | Grant Thornton UK LLP<br>Grant Thornton House<br>Melton Street<br>Euston Square<br>London NW1 2EP |
| **Corporate Solicitors:** | Memery Crystal<br>44 Southampton Buildings<br>London WC2A 1AP |
| **Registrars:** | Share Registrars Limited<br>Suite E, 1st Floor<br>9 Lion and Lamb Yard<br>Farnham<br>Surrey GU9 7LL |
| **Company Registration Number:** | 3984070 |
| **Financial Calendar:** | Annual General Meeting - 3 March 2011<br>Announcement of 2011 Interim Results - July 2011<br>Announcement of 2011 Annual Report - December 2011 |

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