

IMAGINATIK PLC
Report and Financial Statements
31 March 2011

IMAGINATIK PLC

Annual report and financial statements for the year ended 31 March 2011

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Officers and professional advisers

Company secretary	Mr S K Taylor
Company number	3936915
Nominated adviser and broker	Arbutnot Securities Limited 20 Ropemaker Street London EC2Y 9AR
Registered office	22 Melton Street London NW1 2BW
Website	www.imaginatik.com
Bankers	Bank of Scotland 144-148 High Street Southampton SO14 2JF
Auditor	RSM Tenon Audit Limited Statutory Auditor The Poynt 45 Wollaton Street Nottingham NG1 5FW
UK solicitors	Marriott Harrison Staple Court 11 Staple Inn London WC1V 7QH
US solicitors	Dorsey & Whitney LLP 250 Park Avenue New York NY 10177 United States of America
Registrars	Neville Registrars Limited Neville House 18 Laurel Lane Halesowen B63 3DA
Public relations	Threadneedle Communications Limited 3 rd Floor Aldermay House 10-15 Queen Street London EC4N 1TX

Executive Chairman's Statement

Operational Review

As highlighted in the Interim Results announcement released in December 2010, considerable effort has continued to be invested in three key areas. These were the rebuilding of our sales capability, the upgrading of our technology platform and the clarification of our growth strategy and strategic direction.

I am pleased to report that we have made good progress in each of these three areas. While the results for the year are disappointing, the trends underlying the headline figures are moving in the right direction, namely;

- We signed 7 new customers in the second half, compared to 2 in the first (2010, 4 in the second half, 6 in the first);
- All but one customer reaching the end of their contracts since the restructuring in summer 2010 have re-signed with us, demonstrating the value they place on the services we provide; and
- At the year end we had more pilots underway, 6 versus 4 at the same point last year.

The reasons for the reduction in revenues compared to the prior year are three-fold. First, the loss of a significant number of customers in the preceding year meant we had a lower level of renewals available to us. We are confident that we now have a more solid customer base, having spent time this year visiting and working with every customer to maximise their returns from the use of our software.

Second, we did not secure as many new customers overall as we did in the previous year as a result of the time spent rebuilding and reeducating the sales team. It is important to note that we did see an increased level of new client wins in the second half of the year, securing contracts worth over £500,000 in the final few months of the year. The majority of these revenues will be recognised in the next financial year.

The third reason was the extent of the multi-year contracts signed in the previous financial year providing a substantial revenue contribution in the year ended 31 March 2010, but a markedly lower contribution in the year ended 31 March 2011. A number of these contracts are due for renewal in the coming financial year.

Our enterprise innovation platform and consultancy services continue to be selected by some of the world's most successful businesses and organisations, including the World Bank, and the Government Services Agency of the United States Government. We believe this is a clear validation of the quality of our offering. Our continuing goal is to help make the best companies even better by helping them develop a deep competency in innovation. In order to achieve that goal, we are continuing to fill out our offering of products and services so that we can be a complete innovation partner to our clients. We believe we have made a great deal of progress towards that goal in the past year.

This steadying of the customer base and the signing of several new clients on annual contracts towards the end of the year, means we have now entered the new financial year with a higher level of revenue visibility than the previous year, being revenue which is either under contract for the year, or available to us via renewal with existing customers. We entered the new financial year with visibility of over £2.6m (2010: £2.3m), underpinning a substantial part of our fixed overheads.

Since the year end, we have secured two additional customers, Cotton Incorporated, the research and promotions company for US cotton growers, on a multi-year contract, and Cementos Argos, one of the largest cement manufacturers in Latin America, further adding to our client base and recurring revenues.

Financial Review

Total revenue for the year ended 31 March 2011 decreased by 37% to £2.85 million (FY 2010: £4.55 million). During the year, 21% of revenue was generated from up-selling our software and services into existing customers, 29% from selling into new clients, and 50% from recurring business (FY 2010: 20:29:51%). We added 9 new customers during the year (FY 2010: 10).

The US continues to be our core market and the percentage of revenues received from the region grew in the period to 96% (FY 2010: 90%) with the remaining 4% made up from the Rest of the World (FY 2010: 10%).

We took steps during the year to reduce overheads, largely through lower head count and reduced spend on marketing activities deemed to be unnecessary in a period where many leads are now generated through web activity and referrals. The overheads for the year were inflated due to approximately £350,000 of one-off legal costs

Executive Chairman's Statement (continued)

incurred as a result of litigation against the former CEO. This litigation has resulted in a successful result for the Company, obtaining judgment in each of its actions. A significant portion of this cost is expected to be recovered in due course although in order to be prudent this has not been recognised in the financial statements.

Total costs have been reduced by 12% in the year from £5.979 million to £5.257 million this year. The Company continues to seek means to reduce costs post year-end.

Operating losses after share option costs widened to £2.41 million (FY 2010: £1.43 million) primarily as a function of the drop in revenues as referred to above.

We continued to invest in our software platform in the year, upgrading and adding new functionality to improve our competitiveness. In the year we invested £0.57 million (FY2010: £0.42 million) all of which has been prudently written off as incurred but the software remains the Company's primary asset.

On 6 September 2010 the Company announced that it had raised approximately £0.8 million (gross) through a placing of 53,333,332 new ordinary shares of 0.0625p each ("Ordinary Shares") with existing institutional and other investors at a price of 1.5 pence per share.

The Company is in the final stages of securing further financing for the business, and expects to make a market announcement on this very shortly. The financing being raised is expected to be sufficient to provide an appropriate level of working capital for the business and to facilitate further growth, including the addition of further sales and consulting capacity in the US.

Strategy Implementation

Innovation-as-a-Service

We have been pleased with the traction we have gained following the launch of our 'Innovation-as-a-Service' strategy towards the end of the first half of the year which differentiates us from the competition and ensures that our portfolio of clients are assured of success in their innovation programmes. There is a clear demand in the market place for assisted innovation, with Imaginatik providing strategy consultancy and program management alongside our enterprise technology platform. We believe our many years' experience in this area means we are uniquely positioned to deliver this type of service. Clients to whom we now provide Innovation-as-a-Service include Philip Morris, Argo Insurance, Pfizer, Novartis, Cementos Argos and the World Bank.

Innovation Central

In the past year, we have cemented our claim to offer a market-leading product platform.

In April 2011, after the year end, we launched Innovation Central, an expanded version of Idea Central. Innovation Central supports the entire lifecycle of innovation management, from Discovery, through Ideation and Decisions, through the Results – a claim only Imaginatik can make. Innovation Central includes many market leading improvements, including:

- The launch of Discovery Suite, a new offering to serve the Discovery phase of innovation, a first in our market;
- The first version of Portfolio Monitor, designed for the Results phase following Innovation Central's traditional focus on Ideation;
- Social features at the vanguard of Ideation, including community monitoring (Look Who's Talking); and idea and participant profiling of innovation styles (Kudos); and related-idea exploration (Ideas Like This); and
- Powerful new decision and reviewing tools, including a group prioritisation tool (Bubble Up) and a statistically rich pairwise evaluator's tool (Head-to-Head Reviews).

These developments represent a significant step forward in our ability to support innovation at major organisations.

We are committed to continuing product innovation and believe that it is a vital ingredient for success in this growth market.

Executive Chairman's Statement (continued)

Outlook

The outlook for the business is stronger now than it has been for the last 18 months. The final quarter of the year saw the signing of several significant contracts which gives us confidence in our strategy and adds to our increasing levels of revenue visibility for this coming year. We have also increased the number of pilots signed in the second half, which we expect to see converted into annual licence deals during the next financial year.

Importantly, we believe our sales team now has the correct structure, the team is largely complete and well trained and has the tools with which to capitalise on the growing number of opportunities in our market.

Imaginatik continues to be regarded as one of the leaders in the high growth innovation market. This strong reputation, outstanding customer list and strengthening fundamentals mean we view the future with increased confidence.

Matt Cooper
Executive Chairman
2 August 2011

Directors

The board comprises four executive directors and one non-executive directors, whose details are set out below:

Shawn Karl Taylor FCA (*Chief Financial Officer and Chief Operating Officer, aged 48, British*)

Shawn joined Imaginatik in September 2005 and maintains responsibility for financial systems and processes. Shawn also has responsibility for the routine financial controls, management accounting, forecasting and budgeting procedures, treasury management, foreign exchange control and corporate governance compliance.

He has thirteen years' experience as a public company Chief Financial Officer and has led companies through growth phases having previously been Chief Financial Officer of HIT Entertainment Plc from 1998 to 2001 and Content Film Plc from 2001 to 2004.

Andrew Karl Wainwright (*Chief Technology Officer, aged 44, British*)

Andrew manages hosting operations, client support, pre-sales technical support and internal IT. He is responsible for managing Imaginatik's hosted services. His background includes 12 years with IBM from 1988 to 2000, where he was European Manager for Hosted Services. Andrew has written several technical books on managing hosted systems, and has been an IT management consultant. Andrew has an MA in Mathematics from the University of Cambridge. Andrew joined Imaginatik in November 2001.

Paul Gilmer Morland ACA (*Non-executive director, aged 50, British*)

Having qualified as a Chartered Accountant with PricewaterhouseCoopers in 1985, Paul spent three years at Schroder Investment Management. He then held various accounting roles in industry including divisional CFO at Serco Plc.

In 1995 he joined NatWest Securities and was voted the number one analyst in the UK technology sector in the 1998 Extel survey. During this period he was involved in a number of flotations including Autonomy and Computacenter. He was consistently ranked in the top three analysts in his sector until he left Deutsche Bank (which acquired NatWest Securities in 1999) in 2000 to become the CFO of a privately owned IT services company. He returned to an analyst role in the Software and IT Services sector in 2002 and his team at Societe Generale was voted number two in the 2005 pan-European Extel survey. Between 2005-08 Paul was the Software and Computer Services analyst at Arbutnot Securities. At present Paul works as a software analyst for Peel Hunt LLP.

Matthew Cooper (*Executive Chairman, aged 45, American*)

Matthew Cooper was appointed to the board to replace Howard Marshall as Non-executive Chairman in 2009, he became Executive Chairman in June 2010. Matthew is a graduate of Princeton University and an American national, is an experienced public company director and investor. He has been the Chairman of Octopus Capital Limited since 2002 and is currently a non-executive director of a number of VCTs and private companies. Prior to joining Octopus, Matthew was the Principal Managing Director of Capital One Bank (Europe) plc where he was responsible for all aspects of the company's strategic direction and day-to-day operations in Europe. He led the UK portion of the business from start-up to 2 million customers, generating annual revenues of over £275 million and employing over 2,000 people.

Luis Fernando Solis (*President, North America, aged 53, American, appointed 19 November 2010*)

Luis Solis is a graduate of Stanford's Business and Law Schools. Luis has had roles at GE Capital, culminating in the creation and management of \$2B revenue at GeoLogistics, a leading global supply chain outsourcing platform acquired by Saudi Arabian interests, and was also CEO of Group Systems Inc from 2004 to 2008. Luis joined the board of Imaginatik in November 2010.

Ex-Director

During the year the following director resigned from the board:

Mark Clifford Turrell (Resigned 4 June 2010)

Directors (*continued*)

Board committees

The board has established an audit committee and a remuneration committee. Paul Morland chair's the audit committee and the remuneration committee.

Statement of corporate governance

The directors recognise the importance of sound corporate governance and the guidelines set out in the Principles of Good Corporate Governance and Code of Best Practice (the "Combined Code"), which post year end has been replaced by the UK Corporate Governance Code. Whilst AIM companies are not obliged to comply with the Combined Code, the directors do intend to comply with the Combined Code so far as is appropriate having regard to the size and nature of the various companies which comprise the group. The board takes such measures so far as practicable to comply with the Combined Code and in addition, the Quoted Companies Alliance ("QCA") Guidelines for AIM Companies.

Board composition

The group has four executive directors and one non-executive director. The board retains full and effective control over the group. The group holds regular board meetings at which financial, operational and other reports are considered and, where appropriate, voted on. Apart from regular meetings, additional meetings will be arranged when necessary to review strategy, planning, operational and financial performance, risk, capital expenditure and human resource. The board is also responsible for monitoring the activities of the executive management. To enable the board to perform its duties, all directors will have full access to all relevant information. If necessary the non-executive directors may take independent professional advice at the group's expense.

Board committees

The directors have established an audit committee and a remuneration committee with formally delegated duties and responsibilities:

The audit committee

The audit committee meets at least twice a year. The committee reviews the group's annual and interim financial statements before submission to the board for approval. The committee also reviews regular reports and meets with management and the external auditors on accounting and internal control matters. Where appropriate, the committee monitors the progress of action taken in relation to such matters. The committee also recommends the appointment of, and reviews the fees of, the external auditors.

The remuneration committee

The remuneration committee meets twice a year. It is responsible for reviewing the performance of the executive directors and for setting the scale and structure of their remuneration, paying due regard to the interests of shareholders as a whole and the performance of the group. The remuneration committee also determines allocations of any warrants or options granted under any share option scheme adopted by the group now and in the future and is responsible for setting any performance criteria relevant to such warrants or options.

Board appointments

Any decision to appoint further directors to the board is taken by the entire board in a formal meeting. Where it is deemed necessary, new members of the board are provided with appropriate training in respect of their roles and duties as a public company director.

Investor relations

The group places a great deal of importance on communication with its shareholders.

M Cooper has been identified as the group's Senior Independent Director. He is available to shareholders who wish to raise any concerns that they have been unable to resolve through other channels and to attend meetings between management and major investors.

The notice of the AGM will be sent to shareholders at least 21 clear days before the Meeting. At the forthcoming AGM, the group will indicate the level of proxy voting and members of the board committees will be available to answer questions.

Statement of corporate governance (continued)

Corporate social responsibility

The group takes seriously its global carbon footprint and takes reasonable measures to minimize its carbon emissions.

Going concern

As noted in the Financial Review, we are in the final stages of securing further financing for the business. The directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the going concern basis has been adopted in preparing the financial statements.

Internal control

The directors acknowledge their responsibility for the group's systems of internal control.

The group maintains systems of internal control to provide reasonable but not absolute assurance against material misstatement or loss.

The system of internal control is structured around an assessment and prioritisation of the various risks to the business. The control environment is designed to address particularly those risks that the board considers to be material to the business, in safeguarding the assets against unauthorised use or disposition and maintaining proper accounting records which produce reliable financial information.

The board has reviewed the effectiveness of the system of internal control for the accounting period and the period to the date of approval of the financial statements.

The key features of the group's systems of internal control are as follows:

- an ongoing process of risk assessment to identify, evaluate and manage business risks;
- management structure with clearly defined responsibilities and authority limits;
- a comprehensive system of reporting financial results to the board; and
- appraisal and authorisation of capital expenditure.

The group does not currently operate an internal audit function. At the audit committee meetings the Chief Financial Officer reports on internal controls and a programme of work to ensure systems and processes are continuously improved.

Remuneration report

Responsibilities

The remuneration committee is responsible for the determination of the remuneration policy of the group's executive directors and senior executives.

Composition

The single member of the remuneration committee during the year was P G Morland.

Directors' service contracts

The service contracts entered into by the Chief Financial Officer require twelve months' notice of termination on either side, that of the President, North America, nine months' notice of termination on either side and the service contracts of both the Executive Chairman and the Chief Technology Officer requires six months' notice of termination on either side.

Remuneration of non-executive director

The remuneration for the non-executive director is determined by the board as a whole and consists of fees for his services in connection with board and board committee meetings and, where relevant, for additional services such as chairing a board committee. They are not eligible for pension scheme membership and do not participate in any bonus scheme.

The Non-executive director does not participate in decisions about his own remuneration.

Executive remuneration policy

The committee endeavours to offer competitive remuneration packages which are designed to attract, retain and provide appropriate incentives to executive directors and senior executives with the experience and necessary skills to operate and develop the group's business to their maximum potential, thereby delivering the highest level of return for the shareholders.

Consistent with this policy, benefits packages awarded to executives are intended to be competitive and comprising a mix of non performance-related and performance-related remuneration designed to provide appropriate incentives to them, but not to detract from the goals of corporate governance.

Remuneration components for executive directors

Remuneration packages are reviewed each year to ensure that they are in line with the group's business objectives. No director participates in decisions about their own remuneration package.

The main components in determining pay are as follows:

Basic salary/fees and benefits

The basic annual salary is subject to an annual review which takes into account the performance of the group and the individual. Benefits comprise the provision of private healthcare insurance.

Annual performance-related bonus

Demanding annual performance targets, which are consistent with both the short and long term objectives for the business, are set for executive directors which must be achieved before the bonus is payable.

Pensions

A K Wainwright is entitled to an annual pension contribution of £7,000 (2010: £7,000).

Remuneration report (continued)

Remuneration components for executive directors (continued)

Executive share options schemes

Share options are granted to executive directors to encourage them to deliver sustained, long term growth. Except in exceptional circumstances, the value of options granted in any year will not exceed two and a half times basic salary.

Directors' detailed emoluments

The emoluments of the directors of the group were as follows:

	Salary	Pension	Equity	2011	2010
	contribution	payments	Total	Total	Total
	£'000	£'000	£'000	£'000	£'000
M C Turrell	17	-	-	17	100
A K Wainwright	100	7	21	128	136
S K Taylor	135	-	38	173	173
G C Carss	-	-	-	-	182
H C Marshall	-	-	-	-	25
P G Morland	25	-	-	25	25
M Cooper	80	-	26	106	19
L F Solis	34	-	13	47	-
	391	7	98	496	660

Contributions to a defined contribution pension scheme were paid on behalf of one director (2010: one) during the year.

Interests in share options

The following directors hold share options over the ordinary shares of the company.

	Number of share options	Exercise price	Grant date
A K Wainwright	1,250,000	4p	15 December 2006
	1,000,000	2.55p	12 August 2009
	1,500,000	2.55p	30 December 2010
S K Taylor	2,500,000	4p	15 December 2006
	2,000,000	2.55p	12 August 2009
	1,700,000	2.55p	30 December 2010
M Cooper	1,000,000	2.55p	11 December 2009
	2,125,000	2.55p	30 December 2010
	L F Solis	2,000,000	2.55p
	2,000,000	2.12p	16 November 2010

After an initial two year qualification period 50% of the options are exercisable at any time up to the tenth anniversary of the date of grant. The remaining 50% of the options are exercisable between the third and tenth anniversaries of grant.

The mid-market price of the company's shares at 31 March 2011 was 1.38p (2010: 4.38p)

P Morland
Chairman, Remuneration Committee

Report of the directors for the year ended 31 March 2011

The directors present their report together with the audited financial statements for the year ended 31 March 2011.

Results and dividends

The consolidated statement of comprehensive income is set out on page 16 and shows the result for the year.

The directors do not recommend the payment of a dividend.

Principal activity, trading review and future developments

The principal activity of the company and its subsidiaries is the provision of collaborative innovation software and related professional services.

A review of the activities and prospects of the company is given in the Chairman's statement on pages 2-4.

Directors

The directors of the company at the year end, all of whom served for the whole of the year unless stated, were:

A K Wainwright	
S K Taylor	
P G Morland	
M Cooper	
M C Turrell	(resigned 4 June 2010)
L F Solis	(appointed 19 November 2010)

Creditor payment policy

It is the company's policy to agree the terms of payment with suppliers to ensure suppliers are aware of those terms and to then abide by the terms.

At the year end trade creditors represented 34 days (2010: 33 days) of purchases.

Financial instruments risk management objectives and policies

The group finances its operations through a mixture of cash generated from operations and, where necessary to fund expansion or capital expenditure programmes, through leasing or the proceeds of the sale of shares.

Management's objectives are to:

- retain sufficient liquid funds to enable the group to meet its day to day obligations as they fall due whilst maximising returns on surplus funds; and
- match the repayment schedule of any external borrowings with the expected future cash flows expected to arise from the group's trading activities.

As all the group's surplus funds are invested in Pound Sterling and US Dollar bank deposit accounts and its borrowings are all obtained from standard bank loan accounts there is no price risk exposure.

The group's surplus funds are held primarily in short term variable rate deposit accounts. The directors believe that this gives them the flexibility to release cash resources at short notice and also allows them to take advantage of changing conditions in the finance markets as they arise.

Foreign exchange risk arises because the group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the group companies are operating. The group's policy is, where possible, to allow entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency.

Financial instruments risk management objectives and policies (continued)

More details on financial instruments management objectives and policies are mentioned within note 23.

IFRS

We have prepared our financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS).

Statement as to disclosure of information to auditors

In so far as the directors are aware:

- there is no relevant audit information of which the group's auditor is 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 auditor is aware of that information.

Directors' responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 elected to prepare the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union 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 are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed in the "Directors" section of the annual report, confirm that, to the best of their knowledge:

- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the group; and
- the directors' report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties that it faces.

Report of the directors for the year ended 31 March 2011 (continued)

In accordance with Section 418 of the Companies Act 2006, directors' reports shall include a statement, in the case of each director in office at the date the directors' report is approved, that:

- a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditor

RSM Tenon Audit Limited is deemed to be reappointed under section 486 of the Companies Act 2006.

On behalf of the board

Shawn Taylor
Secretary

Independent auditor's report to the shareholders of Imaginatik plc

We have audited the financial statements of the group and parent company for the year ended 31 March 2011 which comprise the Consolidated Statement of Comprehensive Income, Consolidated and Parent's Statement of Changes in Equity, Consolidated and Parents Statement of Financial Position, Consolidated and Parents Statement of Cash Flows 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 group's shareholders, 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 group's shareholders those matters we are required to them in an auditors' 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 group and the group's shareholders as a body, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities, set out on pages 12-13, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Boards' (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial accounts

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 and of the group's loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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 of the information and explanations we require for our audit.

.....
Alistair Hunt
Senior Statutory Auditor

For and on behalf of:
RSM Tenon Audit Limited, Statutory Auditor

Date:

Nottingham

Consolidated statement of comprehensive income for the year ended 31 March 2011

	Note	2011 £	2010 £
Revenue	2	2,847,438	4,550,646
Cost of sales		(341,533)	(326,267)
Gross profit		2,505,905	4,224,379
Administrative expenses		(4,915,787)	(5,653,189)
Operating loss before financing and taxation	5	(2,409,882)	(1,428,810)
Operating loss before share option costs		(2,275,717)	(1,244,933)
Share option costs	3	(134,165)	(183,877)
Finance costs	6	(4,899)	(2,870)
Loss on ordinary activities before taxation		(2,414,781)	(1,431,680)
Income tax expense	7	-	(7,215)
Loss on ordinary activities for the year		(2,414,781)	(1,438,895)
Loss per share: Basic and diluted	8	(1.26p)	(0.96p)

All of the above losses for the year are attributable to equity holders of the parent.

All of the activities of the group are classed as continuing.

The group has no recognised income or expenses other than the results for the year as set out above.

The notes on pages 21 to 40 form part of these financial statements.

Consolidated statement of financial position as at 31 March 2011

	Note	2011		2010	
		£	£	£	£
ASSETS					
Non-current assets					
Property, plant and equipment	11	100,356		151,802	
Intangible assets	12	103,783		161,359	
			204,139		313,161
Current assets					
Trade and other receivables	13	983,045		1,596,020	
Cash and cash equivalents		469,022		1,506,148	
			1,452,067		3,102,168
Total assets			1,656,206		3,415,329
EQUITY AND LIABILITIES					
Equity					
Issued capital	14	134,723		99,515	
Share premium	16	4,690,652		3,918,881	
Share option reserve	16	654,817		520,652	
Retained earnings	16	(5,252,038)		(2,837,257)	
Total equity attributable to equity holders of the parent			228,154		1,701,791
Liabilities					
Non-current liabilities					
Other payables	18	23,801		230,307	
			23,801		230,307
Current liabilities					
Interest-bearing loans and borrowings	19	-		-	
Trade and other payables	19	1,404,251		1,483,231	
			1,404,251		1,483,231
Total liabilities			1,428,052		1,713,538
Total equity and liabilities			1,656,206		3,415,329

The financial statements were approved and authorised for issue by the board on
by:

and signed on its behalf

Shawn Taylor
Director

The notes on pages 21 to 40 form part of these financial statements.

Parent company statement of financial position as at 31 March 2011

	Note	2011		2010	
		£	£	£	£
ASSETS					
Non-current assets					
Investments	10	1		1	
Property, plant and equipment	11	100,356		151,802	
Intangible assets	12	103,783		161,359	
Current assets			204,140		313,162
Trade and other receivables	13	1,279,696		1,913,642	
Cash and cash equivalents		469,022		1,506,148	
			1,748,718		3,419,790
Total assets			1,952,858		3,732,952
EQUITY AND LIABILITIES					
Equity					
Issued capital	14	134,723		99,515	
Share premium	16	4,690,652		3,918,881	
Share option reserve	16	654,817		520,652	
Retained earnings	16	(4,955,386)		(2,519,634)	
Total equity			524,806		2,019,414
Liabilities					
Non-current liabilities					
Other payables	18	23,801		230,307	
Current liabilities			23,801		230,307
Interest-bearing loans and borrowings	19	-		-	
Trade and other payables	19	1,404,251		1,483,231	
			1,404,251		1,483,231
Total liabilities			1,428,052		1,713,538
Total equity and liabilities			1,952,858		3,732,952

The financial statements were approved and authorised for issue by the board on
by:

and signed on its behalf

Shawn Taylor
Director

Company Number 03936915

The notes on pages 21 to 40 form part of these financial statements.

Consolidated and parent company cash flow statements for the year ended 31 March 2011

	Note	2011		2010	
		£	£	£	£
Cash outflows from operating activities	22		(1,819,186)		(866,463)
Investing activities					
Acquisition of property, plant and equipment		(20,258)		(172,048)	
Acquisition of intangible assets		<u>(4,661)</u>		<u>(77,399)</u>	
Net cash used in investing activities			(24,919)		(249,447)
Net cash flow before financing activities			(1,844,105)		(1,115,910)
Financing activities					
Net proceeds from the issue of share capital		806,979		1,505,540	
Repayment of borrowings		<u>-</u>		<u>(19,713)</u>	
Net cash generated from financing activities			806,979		1,485,827
Net (decrease)/increase in cash and cash equivalents			(1,037,126)		369,917
Opening net cash and cash equivalents			<u>1,506,148</u>		<u>1,136,231</u>
Closing net cash and cash equivalents			<u>469,022</u>		<u>1,506,148</u>

The company's subsidiary has no cash inflows or outflows and therefore the amounts above relate to both the parent company and the group. There is a difference in the reconciliation of operating loss to cash flows from operating activities, as shown in note 22.

The notes on pages 21 to 40 form part of these financial statements.

Statement of changes in equity for the year ended 31 March 2011

Group	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total £
Balance at 1 April 2009	82,920	2,429,936	336,775	(1,398,362)	1,451,269
Loss for the year		-	-	(1,438,895)	(1,438,895)
Share option costs	-	-	183,877	-	183,877
Shares issued	16,595	1,488,945	-	-	1,505,540
	16,595	1,488,945	183,877	(1,438,895)	250,522
Balance at 31 March 2010	99,515	3,918,881	520,652	(2,837,257)	1,701,791
Loss for the year	-	-	-	(2,414,781)	(2,414,781)
Share option costs	-	-	134,165	-	134,165
Shares issued	35,208	771,771	-	-	806,979
	35,208	771,771	134,165	(2,414,781)	(1,473,637)
Balance at 31 March 2011	134,723	4,690,652	654,817	(5,252,038)	228,154

Parent company	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total £
Balance at 1 April 2009	82,920	2,429,936	336,775	(1,054,210)	1,795,421
Loss for the year		-	-	(1,465,424)	(1,465,424)
Share option costs	-	-	183,877	-	183,877
Shares issued	16,595	1,488,945	-	-	1,505,540
	16,595	1,488,945	183,877	(1,465,424)	223,993
Balance at 31 March 2010	99,515	3,918,881	520,652	(2,519,634)	2,019,414
Loss for the year	-	-	-	(2,435,752)	(2,435,752)
Share option costs	-	-	134,165	-	134,165
Shares issued	35,208	771,771	-	-	806,979
	35,208	771,771	134,165	(2,435,752)	(1,494,608)
Balance at 31 March 2011	134,723	4,690,652	654,817	(4,955,386)	524,806

The notes on pages 21 to 40 form part of these financial statements.

1 Accounting policies

General information

The group headed by Imaginatik plc is one of the leading providers of collaborative innovation software and related professional services to large and medium-sized enterprises.

The company is a public limited company incorporated and domiciled in the UK. The address of its registered office is 22 Melton Street, London, NW1 2BW.

The company is listed on the Alternative Investment Market. The group consolidated financial statements were authorised for issue by the board of directors on 11 August 2011

The company has adopted the requirements of International Financial Reporting Standards (IFRS) and IFRIC interpretations endorsed by the European Union (EU) and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards.

These financial statements have been prepared in accordance with the accounting policies set out below, which have been consistently applied to all the years presented. These accounting policies comply with applicable IFRS and IFRIC interpretations issued and effective at the time of preparing these statements.

Basis of consolidation

The group financial statements for the year ended 31 March 2011 consolidate the financial statements of Imaginatik plc and its subsidiary undertaking using the acquisition method. Subsidiaries are entities that are directly or indirectly controlled by the group.

The company has taken advantage of the exemption under S408 of the Companies Act 2006 and has not presented its own statement of comprehensive income. Of the consolidated result for the year ended 31 March 2011, a loss of £2,435,752 (2010: loss of £1,465,424) is attributable to the company.

Functional Currency

The national currency of the United States of America is the United States Dollar ("USD"), which is the group's functional currency, because it is the currency in which the group primarily generates and expends cash and it reflects the economic substance of the underlying events and circumstances of the group. These consolidated financial statements are presented in British Pounds Sterling ("GBP") since management believes that this currency is more useful for the users of the consolidated financial statements.

Revenue

Income for the group is derived from a number of different sources. These sources are service-based rather than through the sale of goods. Following the principles of IAS 18 'Revenue', the policies for income recognition in respect of each of the different sources of income are such that income is recognised to the extent that the group has obtained the right to consideration through its performance or delivery of a service in the period of account. Certain forms of income require a contractual obligation to be entered into between the group and the customer. In applying the income recognition policies below where there is a requirement for a contract to be signed, income is recognised in accordance with the policy when the contract has been signed or there is persuasive evidence that the contract will be signed.

a) Consulting:

Income derived from consulting subject to contracts is recognised in the month in which the consulting takes place. Income from longer term consulting arrangements shall be recognised evenly over the term of the contract.

b) Development:

Custom development work income is recognised in the month in which the work is performed and enhancements delivered to the client.

1 Accounting policies (continued)

c) Hosting:

Hosting income is recognised evenly over the term of the contract. Where hosting is included as part of a bundle within a contract and is not specifically itemised, an apportionment is taken as the hosting element of the contract. This amount is recognised over the period of hosting.

d) Hosting set-up:

Income derived from the initial hosting set-up of a customer environment is recognised in the period in which the work is performed.

e) Licence fees – annual, perpetual and multi-year:

Income that arises from annual licences is recognised in equal instalments over the number of years to which the contractual arrangement relates. Income arising from perpetual or multi-year licences are recognised in full in the period in which the contractual agreement has been signed or where there is persuasive evidence that the contract will be signed.

f) Maintenance:

Income derived from maintenance fees is recognised over the term of the contract. Where a maintenance fee is not itemised in the contract but is still provided as part of the contractual arrangement, an apportionment is taken as the maintenance amount.

g) Support:

Income derived from technical support services is recognised in the period in which the support or service is provided to the client.

h) Software rental:

Income derived from the short term rental of software is spread across the period of rental.

i) User training:

Income derived from the provision of training is recognised in the month during which that training is provided to the client. The same principle applies whether the training is supplied by in-house personnel or is delivered by a subcontractor.

j) Barter transactions:

The company enters into sale agreements with certain customers on a barter basis whereby the consideration for the supply of software and services by the company is the receipt of certain other goods and services from the customer instead of the payment of cash.

These barter transactions are recognised in the financial statements on the basis of the fair value of the goods and services received, and where appropriate the income and expense is spread across the period during which the service is provided.

Research and development

The cost of research is charged to the statement of comprehensive income in the period in which it is incurred. Development expenditure is recognised only if the company can demonstrate the following conditions:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probably future economic benefits.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

1 Accounting policies (continued)

Leased assets

Costs in respect of operating leases are charged on a straight line basis over the term of the lease in arriving at the operating loss before taxation.

Pension costs

Contributions to the group's defined contributions pension scheme are charged to the statement of comprehensive income in the period in which they become payable.

Property, plant and equipment

All property, plant and equipment is stated at cost less subsequent depreciation and impairment. The costs of the property, plant and equipment is their purchase price plus any incidental costs of acquisition. Depreciation commences at the point the asset is brought into use.

Depreciation is provided to write off the cost, less estimated residual values, of all property, plant and equipment equally over their expected useful lives. It is calculated at the following rates:

Leasehold improvements	-	Over the life of the lease
Fixtures and fittings	-	33% per annum
Equipment	-	33% to 50% per annum

If there is any indication that an asset's value is less than its carrying amount an impairment review is carried out. Where appropriate an asset's value is reduced to reflect this.

The residual values and useful economic lives of fixed assets are reviewed by management on an annual basis and revised to the extent required.

Intangible assets and amortisation

The costs of significant groups of software licences are capitalised and then amortised over the useful economic lives of the software concerned. Amortisation is charged to administrative expenses.

The cost of intangible assets is their purchase price plus any incidental costs of acquisition. Amortisation begins from the time the asset is brought into use.

Software	-	20% to 33% per annum
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Deferred taxation

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on tax rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax and current tax are charged or credited to the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Investments

Investments are stated at cost less any provision for impairment.

1 Accounting policies (continued)

Cash and cash equivalents

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

Accounting estimates

For the preparation of these financial statements certain significant estimates had to be made. These are discussed within note 26.

Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each statement of financial position date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Other share-based payments

Where share-based payments are settled using fully-paid shares rather than options, the charge to the consolidated statement of comprehensive income is the fair value of the share issued.

Foreign currencies

Transactions entered into by group entities in a currency other than the currency of the primary economic environment in which they operate (their "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the statement of financial position date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the consolidated statement of comprehensive income, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation, in which case exchange differences are recognised in a separate component of equity.

Employee benefits

The company accounts for employee benefits in accordance with IAS 19. Under IAS 19 there is a requirement to recognise the monetary value of employee benefits accruing to employees but not yet settled, typically holiday pay. There is a requirement to account for the value of the liability for employee benefits to be paid in the future for services provided up to the reporting date.

Finance cost

Finance costs of debt are recognised in the statement of comprehensive income over the term of such instruments at a constant periodic rate on the carrying amount.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Financial assets and liabilities are measured at their historical cost.

1 Accounting policies (continued)

Standards issued but not yet effective

At the date of authorisation of these financial statements, the following standards, amendments to standards and interpretations, were in issue but not yet effective for the year ended 31 March 2011;

IFRS 1	First-time adoption of International Financial Reporting Standards
IFRS 7	Disclosures - Transfers of Financial Assets
IAS 12	Deferred Tax - Recovery of Underlying Assets
IAS 17	Leases - Separate disclosure of land from buildings
IAS 24	Related Party Disclosures
IAS 27	Consolidated and separate financial statements
IAS 38	Intangible Assets - Annual Fair Value Adjustments

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the company when the relevant standards come into effect for periods commencing on or after 1 April 2011.

2 Segmental reporting

The directors consider that the group has one class of business, being the provision of innovation software and related professional services. These services are provided to clients in different geographical areas using resources shared between those markets. Therefore segmental information is presented in respect of the group's geographical segments relating to where customers are based. This is the primary basis of segmental reporting. The geographical segmental reporting reflects the group's management and internal reporting structure.

Segmental results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The location of customers is not significantly different to the location of assets.

	2011	2010
	£	£
Segmental revenue:		
United States of America	2,734,350	4,073,195
Rest of the World	113,088	477,451
	<u>2,847,438</u>	<u>4,550,646</u>
Segmental result:		
United States of America	(2,317,820)	(1,275,536)
Rest of the World	(96,961)	(163,359)
	<u>(2,414,781)</u>	<u>(1,438,895)</u>
Carrying amount:		
United States of America		
Assets	1,235,945	2,666,212
Liabilities	(1,102,975)	(1,336,531)
Rest of the World		
Assets	420,261	749,117
Liabilities	(325,077)	(377,007)
	<u>228,154</u>	<u>1,701,791</u>
Additions to property, plant and equipment, and intangible assets:		
United States of America	14,130	172,321
Rest of the World	10,789	77,126
	<u>24,919</u>	<u>249,447</u>
Other:		
Depreciation		
United States of America	38,927	79,811
Rest of the World	32,777	31,746
Amortisation		
United States of America	10,962	12,378
Rest of the World	51,275	57,901
Share option costs		
United States of America	34,413	34,937
Rest of the World	99,752	148,940

3 Staff costs

The average number of employees, including directors, during the year was:

	2011 Number	2010 Number
Management and administration	42	36
	<u> </u>	<u> </u>

Staff costs for the above persons were as follows:

	£	£
Wages and salaries	2,244,390	2,292,460
Social security costs	195,461	202,867
Other pension costs	7,000	7,000
Benefits in kind	175,245	119,795
Share options costs (note 15)	134,165	183,877
	<u> </u>	<u> </u>
	<u>2,756,261</u>	<u>2,805,999</u>

At the year end there was an accrual of £nil (2010: £nil) in relation to share based payments yet to be converted into shares. A credit of £nil (2010: a credit of £16,000) has been made to the profit and loss account in respect of shares issued in the prior year.

4 Key management personnel compensation

	2011 Number	2010 Number
Key management personnel (non-directors)	-	-
	<u> </u>	<u> </u>

Total emoluments of the directors and key management personnel are as follows:

	2011 £	2010 £
Short-term employee benefits	390,739	496,441
Compensation for loss of office	-	60,000
Post employment benefit	7,000	7,000
Share option costs	97,893	95,496
	<u> </u>	<u> </u>
	<u>495,632</u>	<u>658,937</u>

Retirement benefits are accruing to one director under a defined contribution scheme (2010: one).

The directors' emoluments are shown in the remuneration report on page 10.

5 Operating loss

	2011 £	2010 £
This has been arrived at after charging:		
Auditor's remuneration		
Fees for the audit of Imaginatik plc	18,020	23,405
Fees for the audit of other group companies	700	700
Services relating to taxation	2,950	3,250
Other services	4,250	8,475
Operating lease costs:		
Land and buildings	82,977	89,140
Depreciation	71,704	111,557
Amortisation	62,237	70,279
Foreign exchange losses	63,301	3,615
Litigation costs	350,000	-
Research and development	574,028	419,169
	<u> </u>	<u> </u>

6 Finance costs

	2011 £	2010 £
Bank interest receivable	428	2,257
Interest payable on bank loans and overdrafts	(14)	(329)
Other interest costs	(5,313)	(4,798)
	<u> </u>	<u> </u>
	(4,899)	(2,870)
	<u> </u>	<u> </u>

7 Taxation on loss on ordinary activities

	2011 £	2010 £
UK corporation tax	-	-
Under provision in the prior year	-	7,215
	<u> </u>	<u> </u>
		7,215
Total current tax	-	-
Deferred tax	-	-
	<u> </u>	<u> </u>
	-	7,215
	<u> </u>	<u> </u>

7 Taxation on loss on ordinary activities (continued)

(a) Factors affecting tax charge for the year

	2011 £	2010 £
Loss on ordinary activities before tax	(2,414,781)	(1,431,680)
Theoretical corporation tax credit at 21% tax rate (2010: 21%)	(507,104)	(300,653)
Effects of:		
Expenses not deductible for tax purposes	37,276	57,650
Losses carried forward	470,090	230,567
Other timing differences	(4,403)	11,269
Capital allowances in excess of depreciation	4,141	1,167
Under provision in prior year	-	7,215
Current tax charge for the year	-	7,215

(b) Factors that may affect future tax charges

Based on current capital investment plans, the group expects to be able to continue to claim capital allowances in excess of depreciation in future periods at a slightly lower level than in the current period.

At 31 March 2011 the group had tax losses of £4,682,894 (2010: £2,470,256) carried forward and available for offset against future profits. No deferred tax asset has been recognised in respect of these losses as there is insufficient evidence that future profits will be sufficient for recovery of the losses.

8 Earnings per share

Basic loss per share (EPS) has been calculated in accordance with IAS 33 'Earnings per share'. The calculation of EPS is based on losses of £2,414,781 (2010: £1,438,895) and on a weighted average number of ordinary shares in existence during the year of 191,084,986 (2010: 149,297,866).

The share options issued during the current and prior year are considered to be anti-dilutive, and therefore diluted EPS equals basic EPS.

9 Barter transactions

During the year barter transactions totalling £5,900 (2010: £229,392) were entered into by the Group. There was no profit or loss recorded on these transactions. At the year end there was deferred income balance of £nil (2010: £5,900) and deferred costs of £nil (2010: £5,900) in respect of barter transactions.

10 Investments held to maturity

Unlisted investments

Company	£
Cost and net book value at 1 April 2010 and 31 March 2011	1

The company owns all of the issued share capital of Imaginatik (Goswell) Limited. That company, registered in England and Wales, owns certain intellectual property used by Imaginatik plc.

The company also owns all of the issued share capital of Imaginatik Inc. This company, incorporated in the United States of America, has not traded since its incorporation.

11 Property, plant and equipment

Group and company

	Leasehold improvements £	Fixtures and fittings £	Equipment £	Total £
Cost				
At 1 April 2009	38,432	38,206	159,087	235,725
Additions	31,342	19,956	120,750	172,048
At 31 March 2010	69,774	58,162	279,837	407,773
Additions	-	1,565	18,693	20,258
Disposal	(38,432)	-	-	(38,432)
At 31 March 2011	31,342	59,727	298,530	389,599
Depreciation				
At 1 April 2009	30,628	24,541	89,245	144,414
Provided for the year	10,588	9,640	91,329	111,557
At 31 March 2010	41,216	34,181	180,574	255,971
Provided for the year	6,965	10,837	53,902	71,704
Eliminated on disposal	(38,432)	-	-	(38,432)
At 31 March 2011	9,749	45,018	234,476	289,243
Net book amount				
At 1 April 2009	7,804	13,665	69,842	91,311
At 31 March 2010	28,558	23,981	99,263	151,802
At 31 March 2011	21,593	14,709	64,054	100,356

12 Intangible assets

Group and company

	Total £
Cost	
At 1 April 2009	231,096
Additions	77,399
At 31 March 2010	308,495
Additions	4,661
At 31 March 2011	313,156
Amortisation	
At 1 April 2009	76,857
Provided for the year	70,279
At 31 March 2010	147,136
Provided for the year	62,237
At 31 March 2011	209,373

12 Intangible assets (continued)

Net book amount

At 1 April 2009	154,239
At 31 March 2010	161,359
At 31 March 2011	103,783

13 Trade and other receivables

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Trade receivables	763,465	763,465	1,590,323	1,590,323
Provision for doubtful debts	(6,140)	(6,140)	(222,691)	(222,691)
Amounts owed by group undertakings	-	296,651	-	317,622
Other receivables	12,952	12,952	26,473	26,473
Prepayments and accrued income	212,768	212,768	201,915	201,915
	<u>983,045</u>	<u>1,279,696</u>	<u>1,596,020</u>	<u>1,913,642</u>

Included in the above is the following debtor due in greater than one year:

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Trade receivables	-	-	172,635	172,635
	<u>-</u>	<u>-</u>	<u>172,635</u>	<u>172,635</u>

At 31 March 2011 no trade or other receivables are due after more than 1 year (2010: £172,635).

The above represents the fair value of trade and other receivables.

The inter-company receivables are not past due, not impaired and are regarded as fully performing assets. They are unsecured and repayable on demand.

Customer invoices are due for payment within 30 days of issue, however trade receivables that are less than 3 months old are not considered past due in view of normal customer payment patterns. As of 31 March 2011 £757,325 (2010: £1,367,632) were past due but not impaired following management review of the receivables. The ageing of these trade receivables from invoice date is as follows:

	2011 £	2010 £
Up to 3 months	716,282	1,338,762
3 to 6 months	41,043	3,712
Over 6 months	-	25,158
Total	<u>757,325</u>	<u>1,367,632</u>

Notes forming part of the financial statements for the year ended 31 March 2011

13 Trade and other receivables (continued)

The group trades only with recognised, credit-worthy third parties. Receivable balances are monitored on an ongoing basis with the aim of minimising the group's exposure to bad debts or being unable to realise amounts recoverable on contracts. The maximum exposure is the carrying amount above. There are no significant concentrations of credit risk within the group.

The group has reviewed in detail all items comprising the above past due but not impaired trade receivables to ensure that no impairment exists.

As at 31 March 2011, trade receivables of £6,140 (2010: £222,691) were impaired and provided for.

Materially all of the group and company's trade and other receivable are denominated in UK sterling.

Movements on the group provision for impairment of trade receivables are as follows:

	£
At 1 April 2010	222,691
New provision for receivables impairment	13,170
Receivables written off during the year as uncollectable	(229,721)
	<hr/>
At 31 March 2011	6,140
	<hr/> <hr/>

The creation and release of provision for impaired receivables have been included in 'Administrative expenses' in the income statement.

The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The group does not hold any collateral as security.

14 Share capital

	2011 £	2010 £
Allotted, called up and fully paid		
159,223,876 ordinary shares of 0.0625p each	-	99,515
215,557,208 ordinary shares of 0.0625p each	134,723	-
	<hr/>	<hr/>
	134,723	99,515
	<hr/> <hr/>	<hr/> <hr/>

On 9 September 2010:

- 53,333,332 new ordinary shares of 0.0625p each were placed with investors for a gross cash consideration of £800,000. Issue costs relating to the above placing were £38,021, and have been deducted from the share premium account.

On 17 January 2011:

- 3,000,000 new ordinary shares of 0.0625p each were issued for a gross cash consideration of £45,000. There were no costs in relation to this issue.

15 Equity-settled share-based payments

The company recognised total expenses of £134,165 (2010: £183,877) relating to equity settled share-based payment transactions during the year. This comprised of £134,165 (2010: £183,877) of share option charges.

a) Issue of shares

In the year ended 31 March 2010 247,793 fully-paid ordinary shares were issued to directors and employees on 3 July 2009 in respect of their past services to the company. In the year ended 31 March 2010 a charge of £nil was made to the profit and loss account in respect of this share issue, this value being based on the mid-market value of shares at that date.

b) Share options

On 11 December 2006 the company entered into two share options schemes, one in the United Kingdom and one in the United States, which are described below.

Type of arrangement	Enterprise management <u>incentive scheme- UK</u>	Incentive stock option <u>agreement - USA</u>
Date of first grant	11 December 2006	11 December 2006
Total number granted since commencement	27,429,345	14,042,500
Contractual life	10 years	10 years
Vesting conditions	See below	See below

Options vest provided the employee who has been granted the option remains employed by the group at the earliest date that they may exercise the option. Each director or employee may exercise 50% of the options granted to them between two and ten years after the date of the grant. The remainder may be exercised between three and ten years after the date of the grant. Options are forfeited if the employee leaves the company before the options vest. The options will be settled by the issue and allotment of fully-paid ordinary shares.

During the year the exercise price of the share options were rebased. The new exercise price was 2.55p.

Below are details of the transactions during the year:

	Number of options 2011	Weighted average exercise price 2011	Number of options 2010	Weighted average exercise price 2010
Outstanding at the start of the year	17,985,833	3.19p	11,000,833	4p
Granted during the year	14,250,000	2.51p	10,700,000	6.88p
Forfeited during the year	(3,100,000)	2.59p	(3,677,500)	6.28p
Exercised during the year	-	-	(37,500)	4p
Outstanding at end of year (see below)	29,135,833	3.16p	17,985,833	5.61p
Exercisable at end of year	10,622,679	3.8p	9,249,762	4p

15 Equity-settled share-based payments (continued)

Outstanding share options at year end:

2011	2011	2010	2010
Number of options	Exercise price	Number of options	Exercise price
9,181,012	4p	10,010,833	4p
18,854,821	2.55p	6,100,000	6.75p
1,100,000	2p	1,875,000	7.42p
	2011	2010	
Weighted average			
remaining contractual life:	8.01 years	8.04 years	

There were no (2010: 37,500) share options exercised during the year (2010: share price 6.0p).

The estimated fair value of options granted during the year is £335,325 (2010: £734,813). The cost of options granted is spread over the option vesting period. The charge for the year in relation to options held during the year is £134,165 (2010: £183,877).

The fair values were calculated using the Black-Scholes-Merton model. The inputs into the model were as follows:

	2011	2010	2009	2008
Volatility	84%	84%	55%	55%
Expected life	10 years	10 years	10 years	10 years
Share price at grant	2p - 4p as applicable	4p	4p	5p - 8.5p as applicable
Exercise price	2p - 4p as applicable	4p	4p	5p - 8.5p as applicable
Dividend yield	0%	0%	0%	0%
Risk-free rate	2%	2%	5.25%	5.25%

External independent experts were used in determining the expected volatility. The figure used was determined by calculating the historical volatility of the share price of companies considered by the experts to be comparable to the company.

16 Reserves

	Share premium account	Share option reserve	Retained earnings
	£	£	£
Group			
At 1 April 2010	3,918,881	520,652	(2,837,257)
Loss for the year	-	-	(2,414,781)
Issue of ordinary shares, net of expenses	771,771	-	-
Share option charge	-	134,165	-
	<u>4,690,652</u>	<u>654,817</u>	<u>(5,252,038)</u>
At 31 March 2011	4,690,652	654,817	(5,252,038)
Company			
At 1 April 2010	3,918,881	520,652	(2,519,634)
Loss for the year	-	-	(2,435,752)
Issue of ordinary shares, net of expenses	771,771	-	-
Share option charge	-	134,165	-
	<u>4,690,652</u>	<u>654,817</u>	<u>(4,955,386)</u>
At 31 March 2011	4,690,652	654,817	(4,955,386)

Expenses relating to share issues totalling £38,021 (2010: £88,402) were charged to the share premium account.

17 Reconciliation of movement in shareholders' funds

Group	2011 £	2010 £
Issue of shares	806,979	1,505,540
Loss for the year	(2,414,781)	(1,438,895)
Share option charge	134,165	183,877
Other share-based payments	-	-
(Decrease)/Increase in shareholders' funds in the year	(1,473,637)	250,522
Opening shareholders' funds	1,701,791	1,451,269
Closing shareholders' funds	228,154	1,701,791

Company	2011 £	2010 £
Issue of shares	806,979	1,505,540
Loss for the year	(2,435,752)	(1,465,424)
Share option charge	134,165	183,877
Other share-based payments	-	-
Increase in shareholders' funds in the year	(1,494,608)	223,993
Opening shareholders' funds	2,019,414	1,795,421
Closing shareholders' funds	524,806	2,019,414

18 Non-current liabilities

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Deferred income	23,801	23,801	230,307	230,307

19 Current liabilities

	Group 2011 £	Company 2011 £	Group 2010 £	Company 2010 £
Bank loans	-	-	-	-
Trade payables	450,958	450,958	124,072	124,072
Taxation and social security	32,796	32,796	30,156	30,156
Other payables	21,966	21,966	144,279	144,279
Accruals and deferred income	898,531	898,531	1,184,724	1,184,724
	1,404,251	1,404,251	1,483,231	1,483,231

Notes forming part of the financial statements for the year ended 31 March 2011

20 Pensions

The group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the group and company in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund.

The total pension charge for the year was £7,000 (2010: £7,000).

Contributions totalling £nil (2010: £66,352) were payable to the scheme at the end of the year and are included in other payables.

21 Commitments under operating leases

As at 31 March 2011 the group had non-cancellable operating leases as set out below:

	2011	2010
	Land and buildings	Land and buildings
	£	£
Minimum future payments:		
Due within one year	59,998	64,508
Later than one year and not later than five years	119,996	193,523
	<u>179,994</u>	<u>258,031</u>

22 Reconciliation of operating loss to net cash outflow from operating activities

	Group	Company	Group	Company
	2011	2011	2010	2010
	£	£	£	£
Operating loss	(2,409,882)	(2,430,854)	(1,428,810)	(1,462,554)
Depreciation of tangible fixed assets	71,704	71,704	111,557	111,557
Amortisation of intangible fixed assets	62,237	62,237	70,279	70,279
Share option charge	134,165	134,165	183,877	183,877
Corporation tax paid	-	-	(7,215)	-
Net interest paid	(4,899)	(4,899)	(2,870)	(2,870)
Operating cash flows before movements in working capital	<u>(2,146,675)</u>	<u>(2,167,647)</u>	<u>(1,073,182)</u>	<u>(1,099,711)</u>
Decrease/(Increase) in trade and other receivables	612,975	633,947	(44,498)	(17,969)
Increase/(Decrease) in payables	<u>(285,486)</u>	<u>(285,486)</u>	<u>251,217</u>	<u>251,217</u>
Net movement in working capital	327,489	348,461	206,719	233,248
Net cash from operating activities	<u>(1,819,186)</u>	<u>(1,819,186)</u>	<u>(866,463)</u>	<u>(866,463)</u>

23 Financial instruments

The group's financial instruments comprise cash, trade receivables, trade payable and loans, that arise directly from its operations. The main purpose of these financial instruments is to finance the group's operations.

Risk management

The group is exposed through its operations to the following financial risks:

- credit risk;
- foreign exchange risk; and
- liquidity risk

In common with all other businesses, the group is exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

The group has not given a sensitivity analysis for any of the risks as there would be no material change to results of the carrying value of assets or liabilities if the market risks changes.

Principal financial instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are as follows:

- trade receivables;
- cash at bank;
- bank overdrafts;
- trade and other payables;
- floating-rate bank loans; and
- loans from related parties.

General objectives, policies and processes

The board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The board receives monthly reports from the chief Financial Officer through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. Further details regarding these policies are set out below:

Interest rate risk

At present the directors do not believe that the group has significant interest rate risk and consequently does not hedge against such risk. Cash balances earn interest at variable rates, offsetting the risk of variable rate borrowings.

Interest-bearing financial assets

The group's financial assets as at 31 March 2011 comprised cash at bank of £469,022 (2010: £1,506,148). Interest is paid on cash at floating rates in line with prevailing market rates.

23 Financial instruments (continued)

Interest-bearing financial liabilities

The group's financial liabilities as at 31 March 2011 comprised a floating rate bank loan of £nil (2010: £nil).

Loans from related parties

On occasion the company borrows money from related parties which has no interest charge in relation to the balance. The balance at year end was £nil (2010: £42,901).

Credit risk

Credit risk is the risk of financial loss to the group if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The group is mainly exposed to credit risk from credit sales. It is group policy, implemented locally, to assess the credit risk of new customers before entering contracts. Such credit ratings take into account local business practices.

The group has established a credit policy under which each new customer is analysed individually for creditworthiness before the group's standard payment and delivery terms and conditions are offered.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. To manage this the group has made sure that they use reputable banks and financial instruments.

The group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if a sufficient concentration occurs.

The group's chief financial officer monitors the utilisation of the credit limits regularly and at the reporting date does not expect any losses from non-performance by the counterparties other than what has already been provided for.

Foreign exchange risk

Foreign exchange risk arises because the group has operations located in various parts of the world whose functional currency is not the same as the functional currency in which the group companies are operating. Although its global market penetration reduces the group's operational risk in that it has diversified into several markets, the group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. Only in exceptional circumstances will the group consider hedging its net investments in overseas operations as generally it does not consider that the reduction in foreign currency exposure warrants the cash flow risk created from such hedging techniques.

The group's policy is, where possible, to allow group entities to settle liabilities denominated in their functional currency (primarily US dollars or pound sterling) with the cash generated from their own operations in that currency. Where group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them) cash already denominated in that currency will, where possible, be transferred from elsewhere within the group.

<i>Currency profile</i>		2011	2010
		£	£
<i>Financial assets</i>			
Cash -	Sterling	132,881	398,552
	Euro	-	-
	US dollar	336,141	1,107,596
Trade receivables -	Sterling	-	22,925
	US dollar	701,321	1,344,707
	Euro	56,004	-
<i>Financial liabilities</i>			
Trade payables -	Sterling	239,560	65,203
	US dollars	211,398	54,063
	Euro	-	4,806
Bank loans -	Sterling	-	-
Loans from related parties -	Sterling	-	47,901

Notes forming part of the financial statements for the year ended 31 March 2011

23 Financial instruments (continued)

Liquidity risk

Liquidity risk arises from the group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due.

The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

The board receives rolling 12-month cash flow projections on a monthly basis as well as information regarding cash balances. At the statement of financial position date, these projections indicated that the group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

There were no undrawn facilities at 31 March 2011 or 31 March 2010.

Fair value of financial assets and liabilities

The directors believe that the fair value of financial assets and liabilities approximates to the carrying value.

The assumptions used to estimate current fair values of debt and other financial instruments are summarised below:

- i) For cash and short term borrowings the book value approximates to fair value because of their short maturities; and
- ii) Long term debt is at floating rates and therefore the book value currently approximates to fair value.

24 Related party transactions

M Cooper, P G Morland, S K Taylor, M C Turrell, L F Solis and A K Wainwright are all related parties by virtue of their directorships during the year. A Wainwright is a related party by virtue of being a connected person with A K Wainwright. Y U Lindow is a related party by virtue of being a connected person with M C Turrell. The directors' emoluments are shown in the remuneration report on page 10.

The company has paid £5,404 in the year to 31 March 2011 (2010: £6,252) in respect of leasing commitments entered into by M C Turrell in his personal capacity. These commitments consist of a motor vehicle for utilisation by the company in carrying on its operating activities.

During the year Imaginatik plc had transactions with CYL Central Beteiligungsgesellschaft mbH & Innovationsmanagement KG, a company 100% owned by Y U Lindow. £76,597 (2010: £104,788) was paid to the company for consultancy during the year which included £nil (2010: £4,788) in issued share capital. At the year end £nil (2010: £8,333) was outstanding.

The following transactions occurred during the year and at the end of the year the following amounts were due to related parties:

	2011	2010
	£	£
A K Wainwright		
Closing balance	-	42,901
	<u> </u>	<u> </u>
Maximum liability	42,901	42,901
	<u> </u>	<u> </u>
A Wainwright unpaid pension contributions	-	66,352
	<u> </u>	<u> </u>

The company made purchases of services from Imaginatik (Goswell) Limited in the year totalling £21,356 (2010: £34,130). At 31 March 2011 Imaginatik (Goswell) Limited owed the company £296,651 (2010: £317,622).

25 Controlling party

The directors no longer believe that a controlling party exists

26 Critical accounting estimates and judgement

The group makes estimates and assumptions concerning the future. These estimates and judgements are based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The main estimate used relates to the use of the Black-Scholes-Merton model. This has been used to value the share option scheme. A number of estimated variables have been input into the model (as seen in note 15) and as a result, could be expected to change over time. The percentage of options expected to vest is an uncertain amount, and certain factors are linked to whether this occurs.

27 Post-balance sheet event

The company announced on 2 August 2011 that it proposed to raise up to £1.64 million (before expenses) by way of a conditional Placing, Subscription and Open Offer. The terms of the Placing, Subscription and Open Offer were described in an offer document which was despatched to shareholders of the Company on 3 August 2011.

28 Contingent Asset

During the year the company incurred legal costs as a result of litigation against the former CEO. This litigation has resulted in a successful result for the company. A significant portion of this cost is expected to be recovered in due course although this asset has not been recognised in the financial statements.