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Contents

Statement by the Chairman

*The Board is pleased to report another solid business performance in 2011, recording a sixth successive year of double digit growth in profits since 2005, driven in the main by increasing levels of **Recurring Revenue** as the Group strengthens its position as a leading **'Managed Services'** provider in the fields of web-based analytics and portals*

Financial Results

As indicated in last year's financial reports, 2011 would be a year in which we would see a reduction in turnover and an increase in gross margin as we lessened our dependence on low margin product sales The resultant effect of this planned strategy was that turnover reduced by 17 48% to £9 06 million (2010 £10 98 million) whilst the gross profit margin increased by 42%, up from 28 91% to 41 02%, resulting in an absolute margin increase of 12 11 percentage points

Group profit (before tax and share-based payments) rose by 19 46% to £835,000 (2010 £699,000) Reported profit before tax increased by 21 35% year-on-year to £830,000 (2010 £684,000) and profit from operations also increased by 32 30% to £897,000 (2010 £678,000)

Diluted earnings per share rose to 3 03 pence, an increase of 23 17% over the comparable period (2010 2 46 pence)

The Group continues to operate a strong balance sheet and retains £500,000 of its cash with HSBC Investments to offset the very poor interest being earned on cash on deposit In 2010, this grew to £541,000 however, by the 2011 year end, it was valued at £526,000 It has since recovered to be above the 2010 level

The Group's cash position remains strong with cash flow from Operations at £1 202 million (2011 £645,000) leaving cash at the year end of £531,000 (2011 £574,000) after having invested a further £500,000 in SpeedTrap Holdings (our total investment stands at £700,000) Net assets at 31 December 2012 were £4 42 million compared to £3 89 million in 2010

Statement by the Chairman (Continued)

Overview

The second half of the year again saw strong growth in our *Recurring Revenue* stream which increased to 50 3% of total revenue versus 41 4% in 2011 and to 66 69% of Gross profit (2010 58 64%) The strength of our *Recurring Revenues* continues to shield us from the worst of any ups and downs within the economy and, as was the case last year, it is the *'Analytics'* side of the business that is showing the most growth as our partnership with SAS goes from strength to strength

An important milestone was achieved in March 2011 when the Company received ISO 27001 security accreditation This achievement strengthens our *Managed Services* to existing and potential clients offering, as it does, the re-assurance that their data, and any access to it, is governed by a strict 'Code of Conduct' and technically isolated from the outside world

The year saw a slow start to the *Projects* side of the business with the first half showing a drop in top line revenue (but an increase in gross profit) as we experienced some delays in project starts associated with the Japanese Tsunami The second half however saw a recovery, and we finished the year showing an increase overall, albeit small, with revenues up by 2 2% over the previous year

As forecast in the 2010 Report & Accounts, and again at the half year, Product License sales fell from the high levels achieved in 2010 as the Company chose to concentrate on its higher margin business areas whilst increasing its Agency business within the Product License sales, this achieved the higher gross profit in this area of 22%, up from 14 00% in 2010

Personnel

Once again, the Board would like to express its appreciation and thanks to all employees both in the UK and India for their on-going support - their knowledge and expertise are an invaluable and important asset, this, combined with their work ethic and teamwork, ensures we continue to give the consistency of service to clients and supplier partners that is the foundation of our business success.

Dividend

At the half-year the Board increased the interim dividend Following the strong second half performance the Board will be recommending to shareholders an increase in the final dividend to 0 90 pence (2010 0 79p) This, together with the interim dividend of 0 40 pence (2010 0 36p) paid in October 2011, gives a total for the year of 1 30 pence in 2011 (2010 1 15 p)

The final dividend, which is subject to shareholders' approval at the AGM (which is to be held on 17 May 2012), has an ex-dividend date of 9 May 2012 and will be paid on 24 May 2012 to shareholders on the Register at close of business on 11 May 2012

Outlook

The Company is focusing on consolidating its position in the *Analytics* field and, through its strong partnership with its suppliers in this area, it is allowing the business to broaden the scope of its technology offering outside of 'web-based analytics' into 'pure line of business analytics' This is generating opportunities for our *Projects* area by creating cross-technology business between the ECM (Enterprise Content Management) and Analytics areas

The distribution led *Product License* sales continue to reduce as we concentrate on the Agency based business of this area rather than the low margin supplier referred business

The overall mix of our business is to benefit from the on-going demand for *Managed Services* and especially so from the *Analytics* area The security of Turnover and Gross profit gained from the high proportion of *Recurring Revenue* allows us a high level of comfort in the current insecure economic climate that surrounds us. This, coupled with a return to growth in our *Projects* business, leads the Board to be optimistic going forward

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

Barrie Clark, Chairman
26 March 2012

Statement by the Managing Director

As mentioned in our Chairman's report, the Managed Services is the fastest growing division of the company and now represents 66 69% of our total gross profit, a growth of 18% over the previous year The stability that this gives us cannot be underestimated when seen against a background of uncertain economic stability and changing world circumstances

Our decision to concentrate on Managed Services around the three areas of Web Portals, ECM (Enterprise Content Management) and Analytics has proved beneficial and we will continue to look to develop our offering by broadening the range of strategic partnerships - particularly in the Analytics area as this is still forecast as one of the fastest growing sectors of the IT industry

Last year I discussed what Managed Services meant to us and our clients and the tight coupling of clients' needs to the service offering The clients that are attracted to this offering tend to be large enterprises with lots of sensitive data that demands quality of service and a very high level of security

It was against this background that the company decided in Q4 of 2010 to implement systems to earn ISO 27001 security clearance and on the 11 March 2011, IS Solutions successfully completed many months of internal effort by achieving accreditation in ISO27001 2005 Information Security Management

Statement by the Managing Director (Continued)

Achieving ISO27001 Security Benefits for Company and Clients

This was the culmination of a real team effort for the Company, involving employees from across the organisation and, in particular, our internal support team, business process managers and senior technical and operational management

For an organisation of our size, the widespread change undertaken to achieve this certification was a major accomplishment, especially considering the aggressive timeframe that we set ourselves More than that though, it reinforced our long-standing capabilities in the delivery of managed services, an area of our business that stretches back to the early years of the company's 27-year establishment

Our motivation for seeking accreditation

IS Solutions sought accreditation to demonstrate its experience and credibility in the delivery of managed services and Software-as-a-Service solutions to clients in multiple industry sectors including banking, insurance, retail, healthcare and government

As well as our clients though, our efforts in this area send out a strong message of intent to existing and prospective industry partners too, that IS Solutions is an organisation committed to professionalism in delivery and efficiency of our processes

Our managed services are a core element of our range of outsourcing solutions, we have been providing a variety of managed services and facilities management solutions in response to market needs throughout the lifetime of the Company and they have been a key contributor to our profitability over the years.

The benefits to IS Solutions of being accredited

ISO27001 is a crucial requirement for organisations like IS Solutions that work in the hosting or protection of other organisations' data Having formal ISO27001-supporting systems, policies and procedures in place has made a dramatic difference in engaging with clients and ensuring that our combined information security systems provide the required ongoing level of protection

How we achieved accreditation

From the outset, the Board and management team at IS Solutions demonstrated total commitment to the ISO27001 standard and ensured that the appropriate level of investment was made to bring about its implementation and ongoing operation

A Steering Committee was established to oversee and coordinate all activities relating to the Information Security Management System across the company The Steering Committee meets on a regular basis and ensures that all policies and procedures are complied with

Our policies and procedures are made available to all members of staff via a central information security portal Training and awareness sessions are run regularly to ensure that existing and new members of staff are fully aware of the information security policies, procedures, systems and, crucially, their importance to our Company and clients

In addition, ongoing risk assessments are carried out to ensure that appropriate controls are identified to mitigate against changes to threats and vulnerabilities and defined on the Statement of Applicability

The extent of ISO27001 activity is spread across the organisation A team of certified internal auditors carry out ongoing assessments of our Information Security Management System to ensure that information protection is upheld

Statement by the Managing Director (Continued)

Management reviews are also held to ensure compliance with the standard and to review the system's effectiveness, safeguard efficiencies and foster continual improvement Annual inspections are carried out by an independent auditor to ensure continual compliance with the ISO27001 standard

We are fully aware that information security is a continual process, having taken this step, we committed ourselves to a permanent method of operation that quickly improved our internal processes We ensure that systems and procedures are always ready to respond to the latest threats and vulnerabilities and employees have admirably responded to the importance of this increased responsibility

The ISO27001 Information Security Management system, with its Plan, Do, Check, Act methodology, supports an iterative approach to information security and this has become part and parcel of our approach to the security of our clients', and our own internal, information assets.

The benefits to our clients of accreditation

For modern enterprises, information is a key differentiator and a source of competitive advantage, it is, therefore, a significant undertaking to allow an outside organisation to manage this important asset on your behalf Any managed service partner is expected to elicit the highest levels of trust and confidence in their ability to handle this responsibility

Achievement of the ISO27001 standard demonstrates our commitment to guaranteeing the confidentiality, integrity and availability of client data – it gives our clients peace of mind that their information is safely maintained and that their image, competitiveness and profitability are protected

Looking forward with ISO27001 accreditation

The achievement of our ISO27001 accreditation was one of the highlights of a very positive 2011 and we were delighted that our meticulous approach to solutions delivery was recognised in this way This endorsement of our systems and processes is just reward for the hard work performed by staff across the company in ensuring that we deliver solutions securely and effectively to meet the exacting needs of our clients. Our commitment to quality in delivery is the foundation of our success – the achievement of this standard further encourages us to continue our growth in the expanding managed services market

John Lytholl, Managing Director
26 March 2012

Virtualisation in Managed Service Provision Our Space in the Cloud

All the industry talk in 2011 was about Cloud Computing, the delivery of IT solutions as a service using shared resources over a dedicated network 2011 was the year that the Cloud hit the mainstream, becoming an area of enterprise interest as the benefits touted for years beforehand finally became a widespread reality

IS Solutions has of course been working with Cloud Computing for many years, it simply wasn't called that in the past! From early in our 27-year history, the concept of outsourced managed services was something that we embraced for its ability to allow our clients to concentrate on their business while we took care of their IT Initially geared towards facilities management, our technical capabilities naturally extended this idea to managing the systems of our clients wherever they were located - this was enabled by enhanced communications, improved software and hardware management applications and better enterprise-class security

With a further increase in confidence within the market to this type of approach, combined with the clear commercial benefits driven by the continuing economic conditions, we have seen managed services growing steadily and becoming an increasingly crucial part of our business model

The success of our managed services have been underpinned by virtualisation Virtualisation is the use of virtual machines, or VMs, which act as a self-contained guest computer on a larger host computer Depending on the underlying hardware, virtualisation enables multiple VMs to operate on a single server, increasing the overall efficiency and cost-effectiveness of a hardware environment

The growing interest in our managed service offering, combined with our heritage of providing flexible solutions tailored to the specific and unique needs of our clients, has led us to accelerate our adoption of virtualisation We use virtualisation extensively and, together with high-performance storage area networking, this has aided our delivery of managed services considerably In effect, we have implemented a Private Cloud which offers a multitude of benefits to clients including

- the ability to reduce time to implementation by deploying new client systems rapidly,
- the provision of capacity specifically sized to client requirements - this avoids the necessity required of dedicated systems to provide a capacity headroom that may never be used,
- the flexibility to increase or decrease capacity quickly to meet changing client demand,
- the ability to insulate client systems from hardware maintenance activities - this reduces the need for downtime and maximises the availability of applications and data to clients,
- the achievement of greater system resilience across all clients - we provide N+1 redundancy, giving an independent backup component to ensure system availability in the event of a failure, avoiding the duplication of standby hardware for individual clients,
- high levels of security through the implementation of perimeter firewalls and physical networking arrangements - our virtualised environment is part of our ISO27001-certified infrastructure, offering peace of mind to our clients that their data is safely maintained and, moreover, that their image, competitiveness and profitability are protected

The benefits to IS Solutions are also significant, both commercially and environmentally Our ability to provide a more reliable service across our infrastructure means that less time is dedicated to system management tasks - this enables more efficient deployment of skills in meeting client needs and enables a more proactive approach to service delivery This efficiency gain is coupled with reduced energy consumption from lower power and cooling demands and enables us to deliver a greener service to clients.

The overall impact of virtualisation has been enormously positive for both us and our clients. We have witnessed efficiency gains across our operations and, in providing a better and more reliable service to clients, at a reduced cost and with quicker deployment times, we are well-positioned to expand our managed service provision as demand in this area of our business grows.

Case Study – Shanks Waste Management

Shanks is Europe's largest independent waste management group Originally established as a construction business in Scotland in 1880, Shanks is now a FTSE 250 company with operations in the UK, Netherlands, Belgium and Canada

Challenge

Shanks required a collaboration service to support their project bid process. This bidding process required collaboration of Shanks' internal staff with a number of external partners and consultants to pull bids together, exchange information and manage the workflow process from initiation to completion

Shanks was also looking for an organisation to host the chosen application to enable them to focus on the bid process itself It was crucial therefore that the provider was able to meet the following key selection criteria

- Real application expertise
- Local support services providing improved responses to support queries.
- Ability to develop the system for new requirements as required
- Provide the required service levels and security standards.
- Deliver against the right total cost of ownership model
- Provide advice to maintain the application for optimal performance

Market overview

Shanks operates in a highly competitive environment, bids for both businesses and local authorities are typically part of a broad procurement process involving many rival bidders This means that, as well as economic factors, Shanks must display very high standards in the presentation of their solutions in areas such as sustainability, innovative engineering and professionalism in waste management

Projects subsequently involve a high degree of complexity and the submitted bid needs to draw on multiple areas of expertise from within the organisation A collaborative approach to aggregating this information is a prerequisite for success and a system that helps to streamline this process is a key differentiator in ensuring that Shanks wins the maximum number of projects for which it is bidding

Solution

Working with IS Solutions, Shanks' Project Bidding Team selected EMC Documentum eRoom as the technology to assist in the project bid process. EMC Documentum eRoom is an innovative and secure tool specifically designed to support project and other collaborative working environments. It is one of the market leaders in the project

The company provides a range of recycling and energy recovery solutions to customers in both the public and private sectors, employing around 4,000 people and achieving an overall recycling and recovery rate of 77% from 7 7 million tonnes of waste each year

Key Technologies

- EMC Documentum eRoom software

Key Activities.

- Managed service provision including support, maintenance and monthly reporting
- Application setup
- Application development
- Service level agreement with guarantees
- Training
- Data backup and archiving
- Project management

documentation collaboration market and provides a secure, flexible and customisable environment for sharing information It was felt that by opting for the eRoom environment, Shanks would be able to better manage the bid process whilst benefiting from a secure dedicated environment for the bid teams to collaborate and store vital bidding information

Shanks also selected IS Solutions as the Managed Service Provider (MSP) to host their eRoom application IS Solutions is an EMC Partner with Documentum Select Service Team status We specialise in the EMC Documentum product suite, which includes eRoom, and have many years of experience in the implementation, data migration and support of Documentum and eRoom systems. The implementation was completed within 48 hours with user and administration training provided afterwards.

The new eRoom environment was managed within IS Solutions' secure datacentre in London with support and infrastructure management carried out by a dedicated team based at IS Solutions' headquarters in Sunbury-on-Thames, Middlesex The eRoom managed service for Shanks offers a high degree of flexibility and ability to tailor the solution according to client needs, it can be adjusted to meet changing business demands such as international support and 24/7 working

A spokesperson from Shanks commented "eRoom provides Shanks with an invaluable document collaboration system, used by our bidding and project delivery functions and supported by IS Solutions through a well managed and reliable service"

IS Solutions has been working with Shanks since 2010

Corporate Governance

Statement by the Directors on compliance with the Combined Code

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

- For the year under review the Board considered that the Company is not of sufficient size to warrant a Nominations Committee (A 4 1)
- Not all the non-executive Directors are considered to be independent within the provisions of the Code (A 3 2)

A statement of the Directors' responsibilities in respect of the accounts is set out on page 22 Below is a brief description of the role of the Board and its committees, followed by a statement regarding the Group's system of internal financial control

The Board

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

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

Audit Committee

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

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

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

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

Corporate Governance (Continued)

Remuneration Committee

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

The Board's report to shareholders on how Directors are remunerated together with details of the individual Directors' remuneration packages is to be found on page 17

Internal controls

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

i) the safeguarding of assets against unauthorised use or disposition, and

ii) the maintenance of proper accounting records and the reliability of financial information used with the business or for publication

The Board has reviewed the effectiveness of the Group's internal control systems from the period 1 January 2011 to the date of approval of these financial statements. The Board reviews the effectiveness of its control assessment system on a regular basis The Board also ensures that it accords with the revised guidance within the combined code Given the current size of the Group, the Directors consider that an internal audit function would not be appropriate, however this matter is kept under review

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

Control Environment and Procedure

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

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

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

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

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

(i) The Role of the committees is considered by the executive Directors without the presence of the non-executive Directors.

(ii) The Chairman and Managing Director examine the contribution and effectiveness of the individual Directors with regard to their line role and contribution at Board meetings.

(iii) The whole Board examines its purpose and effectiveness with regard to identified key areas.

Auditor Independence

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

Risk Management

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

Investor Relations

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

Financial Reporting

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

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

On behalf of the Board

Michael Tinling LLb, Company Secretary
26 March 2012

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2011 The Corporate Governance Statement set out on pages 10 to 12 forms part of this report

Principal Activity

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

Business Review

Group profit (before tax and share based payments) rose by 19 46% to £835,000 (2010 £699,000) Reported profit before tax increased to £830,000 (2010 £684,000)

R&D

The Company undertakes R&D into various technologies to ascertain the viability and usefulness for its client base and to explore new areas of potential business. This work is undertaken at the company's cost and it has incurred research & development costs of £661k (2010 £558k) in the current year

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

Dividends

The Directors recommend a final dividend of 0 90p per ordinary share to be paid on 24 May 2012 to ordinary shareholders on the register on 11 May 2012 which, together with the interim dividend of 0 40p paid on 14 October 2011, makes a total of 1 30p for the year (2010 1 15p)

Capital Structure

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

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

Details of employee share schemes are set out in note 24

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

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 11

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

Directors' Report (Continued)

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

Going Concern

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

In accordance with the Corporate Governance requirements, having reviewed the future plans and projections for the business, the Directors believe that the Company and its subsidiary undertakings have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements

Principal Risks and Uncertainties

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

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

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

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

Supplier Payment Policy

It is the Company's policy to pay all claims from suppliers according to agreed terms of payment upon receipt of a valid invoice which is materially correct. The Company does not follow a Code on standard payment practice. At 31 December 2011 the Company had 34 days (2010 41 days) of outstanding liabilities to creditors.

Directors and Directors' Interests

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

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

In accordance with the Company's articles of association, RS McDowell and MLS Tinling will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election

Directors' Report (Continued)

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

	Class of shares	Interest at end of year	Interest at beginning of year or date of appointment
BA Clark	Ordinary 2p	547,500	500,000
JL Dodkins	Ordinary 2p	366,766	366,766
PD English	Ordinary 2p	722,234	634,734
PJ Kear	Ordinary 2p	1,340,752	1,240,752
J Lythall	Ordinary 2p	2,248,960	2,248,960
ML Tinling	Ordinary 2p	450,446	379,725
RS McDowell	Ordinary 2p	2,850,000	2,850,000

Details of share options can be found on page 21

Substantial Holdings

As far as the Directors are aware, as at 19 March 2012, the only holdings of 3% or more of the Company's issued share capital are the following

	Number of ordinary shares	%
Pershing Keen Nominees	7,710,829	30 92
Chase Nominees Limited	3,512,370	14 08
J Lythall Esq	2,248,960	9 02
PJ Kear Esq	1,340,752	5 38
M Ward Esq	1,283,532	5 15
Barclayshare Nominees	895,137	3 59

Acquisition of the company's own shares

At the end of the year, the Directors had authority, under the shareholders' resolutions of 19 May 2011, to purchase through the market up to 2,475,153 of the Company's shares at a maximum price of 105% of the average middle market quotation for the five business days immediately preceeding the date of purchase and a minimum price of 2p per share This authority expires on the 17 May 2012 No shares were purchased in the year

Directors' Report (Continued)

Employees

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

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

Treasury Policy

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

Political and Charitable Contributions

The Group made no political contributions or charitable donations during the year (2010 £nil)

The Company holds Directors and Officers Liability insurance

Disclosure of Information to Auditors

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

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

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

Auditors

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

By order of the Board

PJ Kear, Director
Windmill House, 91-93 Windmill Road
Sunbury-on-Thames, TW16 7EF
26 March 2012

Directors' Remuneration Report

Introduction

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

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

Unaudited Information

Remuneration committee

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

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

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

Remuneration policy

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

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

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

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

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

Directors' Remuneration Report (Continued)

Basic salary

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

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

Annual bonus payments

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid In setting appropriate bonus parameters, the Committee takes cognisance of current economic factors and the performance of the Company versus its peers. The bonus scheme for 2012 is set out below Bonus payments totalling £Nil were provided for in 2011 (2010 £Nil)

If the Company's profit before tax and amortisation of acquired intangible assets ('pre-tax profits') for the current financial year (2012) show an increase of more than 15% over the pre-tax profits for 2011, then each Director will be paid a bonus of £500 for each percentage point of such increase achieved between 16% and 24% and £700 for each percentage point of such increase achieved between 26% and 100%, together with a single bonus payment of £2,500 if an increase of 25% or more is achieved In addition at each of the milestones of 50% and 100% increase in such profits each Director will be entitled to a bonus of £5,000 to be satisfied by the allotment or transfer of shares to him The actual award and payment of these bonuses must be signed off by the Committee and is subject to amendment in the event of any material acquisitions or disposals occurring during the year

Share options

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

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

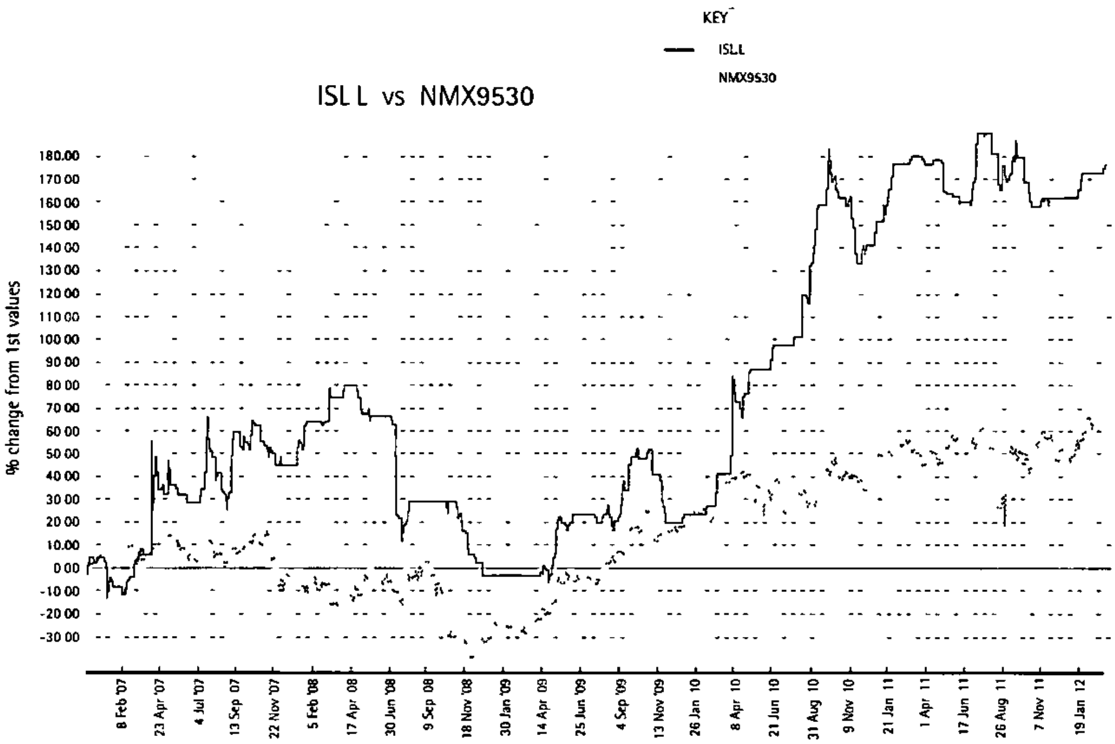
The Company does not operate any long-term incentive schemes other than the share option schemes described above No significant amendments are proposed to be made to the terms and conditions of any entitlement of a Director to share options. The entitlement of a director to share options is not subject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

Pension arrangements

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

To the extent that contributions to the Company scheme are restricted by HMRC limits, the Company contributes 6% of the Director's salary providing the Director contributes a minimum of 4% of his salary There are no unfunded pension promises or similar arrangements for Directors. There were 3 Directors in the scheme in 2011 (2010 3)

Directors' Remuneration Report (Continued)



Performance graph

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

Directors' contracts

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

Executive Directors

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

Non Executive Directors

BA Clark, MLS Tinling, R McDowell and PD English each have an agreement for 12 months which expires on 7 May 2012 The fees of the non-executive Directors are determined and confirmed by the full board excluding (in each case) the non-executive Director concerned

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

Directors' Remuneration Report (Continued)

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows

	2011	2010
	£000	£000
Emoluments	443	411
Money purchase pension contributions	42	47
Total excluding gains on share options	**485**	**458**
Gains on exercise of share options	21	-
Total	**506**	**458**

Director emoluments

The remuneration of the individual directors is as follows

	Fees/Basic salary	Pension Contributions	Benefits	Annual bonus	Total 2011	Total 2010
	£000	£000	£000	£000	£000	£000
Executives						
J Lythall	132	20	2	-	154	152
PJ Kear	123	12	1	-	136	134
JL Dodkins	100	10	18	-	128	110
Non-Executives						
BA Clark	22	-	-		22	21
PD English	14	-	-		14	14
ML Tinling	15	-	-		15	14
RS McDowell	16	-	-		16	13
Total	**422**	**42**	**21**	-	**485**	**458**

An amount of £1,167 was outstanding to BA Clark at the year end

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

Directors' Renumeration Report (Continued)

Directors share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

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

	Number at 1 1 11	Lapsed during year	Granted during year	Exercised during year	Number at 31 12 11	Option price	Exercisable from	Expiry date
JL Dodkins	30,000	-	-	-	30,000	12 0p	06 06 2008	06 06 2015
	70,000	-	-	-	70,000	22 25p	11 11 2010	11 11 2017
	35,000	-	-	-	35,000	18 5p	07 01 2013	07 01 2020
PJ Kear	30,000	-	-	30,000	-	12 0p	06 06 2008	06 06 2015
	70,000	-	-	70,000	-	22 25p	11 11 2010	11 11 2017
	35,000	-	-	-	35,000	18 5p	07 01 2013	07 01 2020
J Lythall	30,000	-	-	-	30,000	12 0p	06 06 2008	06 06 2015
	70,000	-	-	-	70,000	22 25p	11 11 2010	11 11 2017

The market price of the shares at 31 December 2011 was 38 0p (36 5p at 31 December 2010) and the range in the year was 36 5p to 42 5p

The gain on the options exercised during the year by PJ Kear amounted to £20,825

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

Approval

This report was approved by the Board of directors on 26 March 2012 and signed on its behalf by

John Lythall, Managing Director

Statement of directors' responsibilities

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge

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

By order of the Board

John Lytholl, Chief Executive Officer
26 March 2012

Independent Auditors' report to the members of IS Solutions plc

We have audited the financial statements of IS Solutions plc for the year ended 31 December 2011 which comprise the consolidated statement of comprehensive income, consolidated and parent company balance sheets, consolidated and parent company statement of changes in equity, consolidated and parent company 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 and as regards the parent company financial statements as applied in accordance with the provisions of the Companies Act 2006

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 set out on page 22 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit

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 Consolidated 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 on financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's profit for the year then ended,
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Independent Auditors' report to the members of IS Solutions plc

(Continued)

Opinion on other matters prescribed by the Companies Act 2006

In our opinion

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following

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

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

Jeremy Filley (Senior Statutory Auditor)
For and on behalf of RSM Tenon Audit Limited
Statutory Auditor
Vantage, Victoria Street, Basingstoke, United Kingdom
26 March 2012

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

	Notes	2011 £'000	2010 £'000
Continuing operations			
Revenue	3	**9,061**	**10,981**
Cost of sales		(5,344)	(7,806)
Gross profit		**3,717**	**3,175**
Distribution costs		(2,154)	(1,825)
Administration expenses		(727)	(760)
Other operating income	3	61	88
Profit from operations		**897**	**678**
Investment income	4	4	5
Finance costs	4	(38)	(40)
Other gains and losses	4	(33)	41
Profit before tax		**830**	**684**
Tax	8	(67)	(65)
Profit for the period	23	**763**	**619**
Gains on property revaluation		50	-
Total comprehensive income for the period attributable to equity holders of the parent		**813**	**619**
Earnings per share	10		
Basic		3 08 p	2 51 p
Diluted		3 03 p	2 46 p

Consolidated statement of changes in equity for the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Purchase of own shares		(83)	(13)
Sale of own shares		55	10
Share-based payments		5	15
Gains on property revaluation		50	-
Total income recognised directly in equity		**27**	**12**
Profit for the year		763	619
Issue of share capital		29	-
Dividends paid	9	(295)	(279)
Change in shareholders' equity for the year		**524**	**352**
Shareholders' equity at start of year		3,894	3,542
Shareholders' equity at end of year		**4,418**	**3,894**

Consolidated balance sheet as at 31 December 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Goodwill	11	1,118	1,118
Property, plant and equipment	13	2,425	2,300
Investments	15	700	200
Deferred tax assets	8	19	47
Derivative financial instruments	19	-	18
		4,262	**3,683**
Current assets			
Investments	16	526	541
Trade and other receivables	17	2,339	2,229
Cash and cash equivalents		531	574
		3,396	**3,344**
Total assets		**7,658**	**7,027**
Current liabilities			
Trade and other payables	18	(1,939)	(1,667)
Tax liabilities		(38)	(56)
Borrowings	19	(151)	(147)
		(2,128)	**(1,870)**
Non-current liabilities			
Borrowings	19	(1,112)	(1,263)
		(1,112)	**(1,263)**
Total liabilities		**(3,240)**	**(3,133)**
Net assets		**4,418**	**3,894**
Equity			
Share capital	20	499	496
Share premium account	21	1,812	1,786
Revaluation reserve		50	-
Own shares	22	-	(12)
Retained earnings	23	2,057	1,624
Attributable to equity holders of the parent		**4,418**	**3,894**

These financial statements of IS Solutions plc, registered number 01892751, were approved by the Board of Directors and authorised for issue on 26 March 2012 and were signed on its behalf by

J. Lythall

J Lythall, Director

Consolidated cash flow statement for the year ended 31 December 2011

	2011 £'000	2010 £'000
Operating activities		
Profit from operations	897	678
Adjustments for		
Depreciation of property, plant and equipment	139	108
Gain on disposal of property, plant and equipment	(1)	-
Amortisation of intangible assets	-	30
Impairment of goodwill	-	29
Share-based payments	5	15
Operating cash flows before movements in working capital	**1,040**	**860**
(Increase)/decrease in debtors	(110)	137
Increase/(decrease) in creditors	272	(352)
Cash generated by operations	**1,202**	**645**
Income taxes paid	(57)	(36)
Net cash from operating activities	**1,145**	**609**
Investing activities		
Interest received	4	5
Interest paid	(38)	(40)
Purchase of non-current investments	(500)	(200)
Purchase of current investments	-	(500)
Purchase of property, plant and equipment	(223)	(118)
Proceeds on disposal of property, plant and equipment	10	-
Net cash used in investing activities	**(747)**	**(853)**
Financing activities		
Issue of new share capital	29	-
Dividends paid	(295)	(279)
Repayment of borrowings	(147)	(143)
Purchase of own shares (net)	(28)	(3)
Net cash used in financing activities	**(441)**	**(425)**
Net decrease in cash and cash equivalents	**(43)**	**(669)**
Cash and cash equivalents at start of year	574	1,243
Cash and cash equivalents at end of year	**531**	**574**

Company statement of changes in equity for the year ended 31 December 2011

	Notes	2011	2010
		£'000	£'000
Purchase of own shares		(83)	(13)
Sale of own shares		55	10
Share-based payments		5	15
Gains on property revaluation		50	-
Total income recognised directly in equity		**27**	**12**
Profit for the year		763	550
Issue of share capital		29	-
Dividends paid	9	(295)	(279)
Change in shareholders' equity for the year		**524**	**283**
Shareholders equity at start of year		3,602	3,319
Shareholders' equity at end of year		**4,126**	**3,602**

Company balance sheet as at 31 December 2011

	Notes	2011 £'000	2010 £'000
Non-current assets			
Goodwill	11	1,018	1,018
Investment in subsidiaries	14	385	385
Property, plant and equipment	13	2,425	2,300
Investments	15	700	200
Deferred tax assets	8	19	47
Derivative financial instruments	19	-	18
		4,547	**3,968**
Current assets			
Trading investments	16	526	541
Trade and other receivables	17	2,339	2,229
Cash and cash equivalents		531	574
		3,396	**3,344**
Total Assets		**7,943**	**7,312**
Current liabilities			
Trade and other payables	18	(2,516)	(2,244)
Tax liabilities		(38)	(56)
Borrowings	19	(151)	(147)
		(2,705)	**(2,447)**
Non-current liabilities			
Borrowings	19	(1,112)	(1,263)
		(1,112)	**(1,263)**
Total liabilities		**(3,817)**	**(3,710)**
Net assets		**4,126**	**3,602**
Equity			
Share capital	20	499	496
Share premium account	21	1,812	1,786
Revaluation reserve		50	-
Own shares	22	-	(12)
Retained earnings	23	1,765	1,332
Total equity		**4,126**	**3,602**

These financial statements of IS Solutions plc, registered number 01892751, were approved by the Board of Directors and authorised for issue on 26 March 2012 and were signed on its behalf by

J Lythall Director

Company cash flow statement for the year ended 31 December 2011

	2011 £'000	2010 £'000
Operating activities		
Profit from operations	897	609
Adjustments for		
Depreciation of property, plant and equipment	139	108
Gain on disposal of property, plant and equipment	(1)	-
Amortisation of intangible assets	-	30
Impairment of investment in subsidiaries	-	98
Share-based payments	5	15
Operating cash flows before movements in working capital	**1,040**	**860**
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Net decrease in cash and cash equivalents	**(43)**	**(669)**
Cash and cash equivalents at start of year	574	1,243
Cash and cash equivalents at end of year	**531**	**574**

Notes to the financial statements

1 Significant accounting policies

Basis of preparation

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

Going concern

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

In accordance with the Corporate Governance requirements, having reviewed the future plans and projections for the business, the Directors believe that the Company and its subsidiary undertakings have adequate resources to continue in operational existence for the foreseeable future For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Adoption of new and revised standards

Standards, amendments and interpretations effective in the period to 31 December 2011

IAS 24	Related Party Disclosures

Standards, amendments and interpretations that became effective in 2011 but have no effect on the Group's operations

IAS 32	Financial instruments presentation
IFRS 1	First-time Adoption of IFRS
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IFRS 3	Business Combinations
IFRS 7	Financial Instruments Disclosures

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

IFRS 7	Disclosures - Transfers of Financial Assets
IFRS 1	First-time Adoption of IFRS
IAS 1	Presentation of Financial Statements
IAS 34	Interim Financial Reporting
IFRIC 13	Customer Loyalty Programmes

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

Basis of consolidation

The group accounts consolidate the accounts of IS Solutions Plc and all its subsidiary undertakings. These accounts are made up to 31 December 2011

Notes to the financial statements (Continued)

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

All intra-group transactions and balances are eliminated on consolidation

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

Property, plant and equipment

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

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

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

Acquisitions

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

Goodwill

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

Investments

The carrying value of non-current investments is stated at cost less any provision for impairment This value is reviewed anually by the Board

Other intangible assets

Capitalised contracts

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

Foreign currencies

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

Notes to the financial statements (Continued)

Profit from operations
Profit from operations is stated before investment income, finance costs and other gains and losses

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

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

Treasury shares
From time to time the Company purchases its own shares for the purpose of satisfying the future exercising of outstanding share options. These shares are held in treasury and are shown in its reserves

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

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

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

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

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

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

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

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

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

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

Financial Instruments

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

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

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

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

Trade payables are not interest bearing and are stated at cost

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

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

Borrowings

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

Borrowing costs

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

Company accounts

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

Notes to the financial statements (Continued)

2 Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Group's accounting policies

Goodwill

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

Revenue recognition

The management regularly reviews its policy on revenue recognition in line with the accounting policies stated in note 1

3 Revenue

	Group	
Analysis of revenue	**2011**	**2010**
Continuing operations	**£'000**	**£'000**
Sale of goods	2,027	4,703
Rendering of services	7,034	6,278
	9,061	10,981
Other operating income	61	88
Investment income	4	5
	9,126	**11,074**
Analysis of other operating income		
Operating lease receipts (see note 25)	51	88
Director's fees received from Speed-Trap (Holdings) Ltd	10	-
	61	**88**

4 Investment income, finance costs and other gains and losses

	Group	
	2011	**2010**
Analysis of investment income	**£'000**	**£'000**
Bank interest received	**4**	**5**
Analysis of finance costs		
Mortgage interest paid	**(38)**	**(40)**
Analysis of other gains and losses		
Fair value adjustment of derivative financial instrument	(18)	-
(Loss)/profit on revaluation of trading investments	(15)	41
	(33)	**41**

Notes to the financial statements (Continued)

5 Business and geographical segments

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

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

- License sales
- Project work
- Recurring revenues

No allocation of other income and costs to these categories is made because the Directors consider that any such allocation would be arbitrary Any allocation of assets and liabilities to these categories would also be arbitrary The reporting below is consistent with that provided to the Chief Executive

Continuing operations 2011	Licence sales	Project work	Recurring revenues	Total £'000
External sales	2,027	2,475	6,040	10,542
Adjustment for agency basis	-	-	(1,481)	(1,481)
Reported revenue	**2,027**	**2,475**	**4,559**	**9,061**
Segment result (gross profit)	**446**	**792**	**2,479**	**3,717**
Other operating costs and income				(2,820)
Investing and financing activities				(67)
Profit before tax				**830**
Major customers (over 10% of revenue)				
Customer 1	-	1,028	1,200	2,228

Continuing operations 2010	Licence sales	Project work	Recurring revenues	Total £'000
External sales	4,609	2,421	5,345	12,375
Adjustment for agency basis	(596)	-	(798)	(1,394)
Reported revenue	**4,013**	**2,421**	**4,547**	**10,981**
Segment result (gross profit)	**562**	**751**	**1,862**	**3,175**
Other operating costs and income				(2,497)
Investing and financing activities				6
Profit before tax				684
Major customers (over 10% of revenue)				
Customer 1	-	1,024	1,169	2,193

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

Geographical segments

The Group operates entirely within the UK

Notes to the financial statements (Continued)

6 Profit from operations

Profit from operations has been arrived at after charging/(crediting)	2011 £'000	2010 £'000
Research and development costs	661	558
Net foreign exchange gains	(12)	(3)
Depreciation of property, plant & equipment	139	108
Gain on disposal of property, plant & equipment	1	-
Amortisation of intangible assets	-	30
Impairment of goodwill	-	29
Staff costs (see Note 7)	4,508	3,937
Auditors' remuneration for audit services (Group and Company, the Company fee is not separately quantifiable)	26	26
Auditors' remuneration for tax compliance and advisory services	5	4

7 Staff costs

The average number of employees (including directors) during the year was	Group & Company 2011	 2010
Sales	13	13
Engineering	58	55
Administration	13	13
	84	**81**

Their aggregate remuneration comprised	£'000	£'000
Salaries	3,815	3,303
Social security costs	415	354
Pension costs	278	280
	4,508	**3,937**

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

Notes to the financial statements (Continued)

8 Tax

	2011 £'000	2010 £'000
Current tax	39	54
Deferred tax	28	11
UK corporation tax	**67**	**65**
The charge for the year can be reconciled to the reported profit as follows		
Profit before tax	830	684
UK corporation tax at 26% (2010 28%)	216	192
Research and development credit	(132)	(117)
Relief for exercising of share options	(15)	(7)
Writing-down allowances in excess of depreciation	(16)	(17)
Amortisation of intangibles	-	8
Impairment of goodwill	-	8
Other non-deductible expenses	10	10
Other timing differences	28	9
Lower rate relief	(24)	(21)
Tax charge as above	**67**	**65**

Deferred tax asset/(liability)	**Intangibles £'000**	**Timing differences £'000**	**Total £'000**
At 1 January 2010	(6)	64	58
Credit/(charge) to income statement	6	(17)	(11)
Group at 1 January 2011	-	47	47
Credit/(charge) to income statement	-	(28)	(28)
At 31 December 2011	-	**19**	**19**

9 Dividends

Amounts recognised as distributions to equity holders	2011 £'000	2010 £'000
Final dividend for the year ended 31 December 2010 of 0 79p (2009 0 77p)	190	190
Interim dividend for the year ended 31 December 2011 of 0 40p (2010 0 36p)	105	89
	295	**279**
Proposed final dividend for the year ended 31 December 2011 of 0 90p	**224**	

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

Notes to the financial statements (Continued)

10 Earnings per share

	2011	2010
Earnings, being the net profit attributable to equity holders of the parent (£'000)	**763**	**619**
Weighted average of ordinary shares in issue	24,835,517	24,793,190
Weighted average of own shares	(24,935)	(137,962)
Weighted average for the purpose of basic earnings per share	**24,810,582**	**24,655,228**
Effect of dilutive share options	366,954	516,795
Weighted average for the purpose of diluted earnings per share	**25,177,536**	**25,172,023**

11 Goodwill

	Group		Company	
	2011	2010	2011	2010
Cost of goodwill	**£'000**	**£'000**	**£'000**	**£'000**
At 1 January and 31 December	**3,274**	**3,274**	**2,930**	**2,930**
Accumulated impairment charges				
At 1 January	2,156	2,127	1,912	1,912
Impairment charge for the year	-	29	-	-
At 31 December	**2,156**	**2,156**	**1,912**	**1,912**
Carrying amount at 31 December	**1,118**	**1,118**	**1,018**	**1,018**
Allocation of goodwill				
AXL customers	100	100	100	100
Candric customers	100	100	-	-
Chapter26 customers	918	918	918	918
At 31 December	**1,118**	**1,118**	**1,018**	**1,018**

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

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

Notes to the financial statements (Continued)

12 Other intangible assets (Group and Company)

Capitalised contracts	2011 £'000	2010 £'000
At 1 January	-	120
Expired	-	(120)
At 31 December	-	-
Accumulated amortisation		
At 1 January	-	90
Amortisation for the year	-	30
Expired	-	(120)
At 31 December	-	-
Carrying amount at 31 December	-	-

13 Property, plant & equipment (Group and Company)

Cost	Land & buildings £'000	Fixtures & equipment £'000	Motor vehicles £'000	Total £'000
At 1 January 2010	2,224	351	51	2,626
Additions	-	118	-	118
Disposals	-	(58)	(13)	(71)
At 1 January 2011	2,224	411	38	2,673
Additions	-	174	49	223
Revaluation	50	-	-	50
Disposals	-	(83)	(38)	(121)
At 31 December 2011	**2,274**	**502**	**49**	**2,825**
Depreciation				
At 1 January 2010	15	285	36	336
Charge for year	45	57	6	108
Eliminated on disposals	-	(58)	(13)	(71)
At 1 January 2011	60	284	29	373
Charge for year	45	85	9	139
Eliminated on disposals	-	(85)	(27)	(112)
At 31 December 2011	**105**	**284**	**11**	**400**
Carrying amount				
At 31 December 2010	2,164	127	9	2,300
At 31 December 2011	**2,169**	**218**	**38**	**2,425**

Notes to the financial statements (Continued)

Included in land & buildings is freehold land valued at £750,000 (2010 £700,000) which is not subject to depreciation The land and buildings were professionally valued at the end of the year and the resultant increase in value was credited to revaluation reserve

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

14 Investment in subsidiaries

	Company	
	2011	2010
Cost of investment	**£'000**	**£'000**
At 1 January and 31 December	907	907
Accumulated provision for impairment		
At 1 January and 31 December	522	522
Carrying amount at 31 December	385	385

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

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

Notes to the financial statements (Continued)

15 Non-current investments (Group and Company)

	2011	2010
Trading investments (in Speed-Trap (Holdings) Ltd)	**£'000**	**£'000**
Fair value at 1 January	200	-
Purchases during year	500	200
Fair value at 31 December	**700**	**200**

During the year purchases from Speed-Trap (Holdings) Ltd amounted to £132,000 (2010 £210,000) and the Group invoiced a total of £49,000 (2010 nil) in fees and services The Group's trade debtors included a balance of £30,000 (2010 nil) and trade creditors a balance of £81,000 (2010 £119,000) relating to Speed-Trap (Holdings) Ltd

16 Current investments (Group and Company)

	2011	2010
Trading investments	**£'000**	**£'000**
Fair value at 1 January	541	-
Purchases during year	-	500
Movement in fair value during year	(15)	41
Fair value at 31 December	**526**	**541**

17 Trade and other receivables

	Group & Company	
	2011	**2010**
	£'000	**£'000**
Trade receivables	2,065	2,065
Other debtors	19	53
Prepayments	255	211
	2,339	**2,339**

Trade receivables	**2011**	**2010**
Ageing of past due but not impaired receivables	**£'000**	**£'000**
Overdue 1 month	144	77
Overdue 2 months	201	21
Overdue 3 months and more	55	14
	400	**112**

Trade receivables arise mainly from credit sales. The Board considers that their recoverable value, after considering any credit risk, does not differ materially from their carrying value In particular those amounts past due are assessed to be fully recoverable and are not considered to be impaired Balances in foreign currencies at the end of the year totalled £267,000 (2010 £137,000) The average credit period taken on sales of goods and services was 53 days (2010 53 days)

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

Notes to the financial statements (Continued)

18. Trade and other payables

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Trade payables	930	717	930	717
Owed to subsidiaries	-	-	577	577
Other taxes payable	403	345	403	345
Accruals and deferred income	606	605	606	605
	1,939	1,667	2,516	2,244

Trade payables comprise amounts outstanding for trade purchases and ongoing costs The average credit period taken for trade purchases is 34 days (2010 41 days) Their carrying value approximates to their fair value Balances in foreign currencies at the end of the year totalled £26,000 (2010 £22,000)

19 Borrowings (Group and Company)

	2011	2010
Bank mortgage	£'000	£'000
Outstanding at 1 January	1,410	1,553
Repaid during year	(147)	(143)
Outstanding at 31 December	1,263	1,410
Repayable within one year	151	147
Repayable within one to two years	155	151
Repayable within two to five years	489	477
Repayable in more than five years	468	635

The fair value of the mortgage approximates its carrying amount The Group's borrowing is subject to restrictive covenants, including disposal of assets and provision of certain financial information to the bank Interest is payable at a variable rate 2 1% above base rate

The Company has subscribed to a base rate cap of 4 5% per annum for a notional loan amount of £1,200,000 reducing over the term of the cap (2011 £1,073,000, 2010 £1,169,000), which expires on 3 September 2014 This base rate cap is a derivative financial instrument classed as fair value through profit or loss with nil value (2010 £18,000)

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

20 Share capital

	Shares	2011	2010
Ordinary shares of 2p each		£'000	£'000
Authorised	37,500,000	750	750
Issued and fully paid up			
Balance at 1 January	24,793,190	496	496
Issued during year	144,388	3	-
Balance at 31 December	**24,937,578**	**499**	**496**

21 Share premium account

	2011	2010
	£'000	£'000
Balance at 1 January	1,768	1,768
Premium arising on issue of equity shares	26	-
Balance at 31 December	1,812	1,786

22 Own shares (shares held in treasury)

	2011	2010
	£'000	£'000
Balance at 1 January	12	20
Acquired during the year	83	13
Sold during year	(95)	(21)
Balance at 31 December	-	12
Fair value at 31 December	-	19

23 Retained earnings

	Group		Company	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Balance at 1 January	1,624	1,280	1,332	1,057
Dividends paid	(295)	(279)	(295)	(279)
Loss on sale of own shares	(40)	(11)	(40)	(11)
Credit to equity for equity-settled share-based payments	5	15	5	15
Net profit for the year	763	619	763	550
Balance at 31 December	**2,057**	**1,624**	**1,765**	**1,332**

Notes to the financial statements (Continued)

24 Share-based payments

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

	2011		2010	
	Number of share options	Weighted av exercise price	Number of share options	Weighted av exercise price
Options outstanding at 1 January	1,729,000	19 66 p	1,282,500	19 46p
Granted during the year	-	-	610,000	18 50p
Forfeited during the year	(10,000)	18 50 p	(66,500)	19 05p
Exercised during the year	(396,000)	21 19p	(97,000)	10 14p
Outstanding at 31 December	1,323,000	19 21p	1,729,000	19 66p
Exercisable at 31 December	763,000	19 72p	1,159,000	20 22p

The weighted average share price at the exercise date of the exercised shares was 39 5p (2010 34 0p) The weighted average contractual life of the outstanding options was 6 years (2010 7 years), exercisable in the range 12 00p to 22 25p

The Group recognised £5,000 of expense related to equity-settled share-based payments in 2011 (2010 £15,000)

No options were issued during the year Options issued in 2010 had a fair value of 2 37p per share (aggregate £14,457) based on Black-Scholes input values excercise price 18 5p, expected volatility (determined historically over three years) of 30%, expected life of three years, a risk free rate of 0 5% and an expected dividend yield of 5 4%

25 Operating lease arrangements (Group and Company)

As lessee

The Group has no outstanding operating leases.

As lessor

The future aggregate minimum lease payments receivable under non-cancellable operating leases are	2011 £'000	2010 £'000
Due in less than one year	8	47
Due between two and five years	-	8
Lease receipts recognised as income during the year	**51**	**88**

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

26. Financial instruments

Capital risk management

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

Gearing ratio (at end of year)	**2011**	**2010**
	£'000	**£'000**
Debt	1,263	1,410
Cash and cash equivalents	(531)	(574)
Net debt	732	836
Equity	4,418	3,894
Net debt to equity ratio	16 57%	21 47%

Significant accounting policies

Details for financial instruments are disclosed in note 1

	2011	**2010**	**2009**
Categories of financial instruments	**£'000**	**£'000**	**£'000**
Financial assets			
Cash and bank balances	531	574	1,243
Current investments	526	541	-
Designated fair value through profit and loss	-	18	18
Loans and receivables	2,339	2,229	2,366
Financial liabilities			
Other	3,240	3,133	3,617

Financial risk management

The Board manages financial risk by means of internal assessment reports. The only significant risk to the business is that of interest rate changes It is estimated each 1% rise in average interest rates, using consistent estimation methods, would reduce the reported profit before tax by £5,000 (2010 £5,000) The Board has limited this risk by means of an interest rate cap derivative as described in note 19

Credit risk management

The Group uses credit reference agencies to determine and monitor the credit limits of new and existing customers. At the end of the year one customer owed a total of £259,000 (2010 three customers owed £650,000) No other customers owed more than 10% of the outstanding total No provision for doubtful debts has been made (2010 nil)

Liquidity risk management

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

Financial facilities	**2011**	**2010**
	£'000	**£'000**
Secured bank overdraft facility (unused)	500	500

Notes to the financial statements (Continued)

Fair value measurement

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

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

The current trade investment is observable at level 1

The interest rate cap derivative is observable at level 2

UK Registered Office (and principal place of business)
Windmill House
91-93 Windmill Road
Sunbury-on-Thames
Middlesex
TW16 7EF

Tel +44 (0) 1932 893333
Fax +44 (0) 1932 893433

E-Mail moreinfo@issolutions.co uk
Web www issolutions.co uk

Company Registration Number 1892751

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