

Cognisco Group PLC

Annual report and financial statements

for the year ended 31 December 2008

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Cognisco Group PLC

Annual report and financial statements for the year ended 31 December 2008

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Cognisco Group PLC

Officers and professional advisers

Board of directors F Ruttonshaw (Chairman)
Mrs M Clarke (CEO)
S Sharp
K West

Company secretary Paul Bevington

Registered office Conway House
Medway Court
Cranfield Technology Park
University Way
Cranfield
MK43 0FQ

Auditor PricewaterhouseCoopers LLP
Exchange House
Central Business Exchange
Midsummer Boulevard
Central Milton Keynes
MK9 2DF

Bankers National Westminster Bank PLC
Milton Keynes

Cognisco Group PLC

Directors' report for the year ended 31 December 2008

The directors present their report and the financial statements of the company for the year ended 31st December 2008.

BUSINESS REVIEW AND PRINCIPAL ACTIVITIES

Cognisco supports global corporations in over 150 countries and 31 languages across all the major business sectors, both private and public. Cognisco*KNOW is a combination of online, face to face and consultation processes, providing and analysing employee knowledge and understanding of their job roles in order to enhance business performance.

The model of Cognisco's business is that we:

- Identify the market requirement for 'knowledge-based' assessment solutions to global companies across all sectors.
- Develop "best of breed" intelligent software solutions to meet that requirement.
- Market and sell Cognisco Consulting Services to large corporate users.
- Licence and sell our software products, typically to large corporate users, but also, in specific instances to major consultancies/partners in the change management and learning and development marketplace.

On the 15th February 2008, the Board informed the shareholders of their intention to re-organise the existing companies, Cognisco Limited and the US subsidiary, Cognisco USA Inc, into a more structured group with a new public company Cognisco Group Plc at its head. In creating this structure the following steps were taken:

- The formation of the new companies Cognisco Group Plc, Cognisco Systems Limited and Cognisco Overseas Limited;
- An offer by Cognisco Group Plc to acquire all the shares in Cognisco Limited in exchange for the same number of shares in Cognisco Group Plc, as described below;
- The transfer of overseas, sales and marketing functions (and related assets, including ownership of Cognisco USA Inc) from Cognisco Limited to Cognisco Overseas Limited;
- The transfer of software and content development functions (and related assets, including most of the group's intellectual property rights) from Cognisco Limited to Cognisco Systems Limited;
- The transfer of the group's intellectual property rights) from Cognisco Limited to Cognisco Systems Limited;
- The transfer of group accounting and administrative functions from Cognisco Limited to Cognisco Group Plc;

Cognisco Limited continues to be the main trading company. Cognisco Systems Limited and Cognisco Overseas Limited are owned by Cognisco Group Plc. Cognisco Group Plc was incorporated on the 10th March 2008. Cognisco Overseas Limited and Cognisco Systems Limited were incorporated on change of name from Seckloe 404 and Seckloe 405 Limited respectively on the 1st July 2008.

Cognisco Group Plc purchased the entire issued share capital of Cognisco Limited on the 15th May 2008. It was the first stage of reorganisation of the existing companies, Cognisco Limited and Cognisco USA Inc, into a more structured group with Cognisco Group Plc at its head. This allowed the group to exploit the additional marketing benefits of a PLC name, particularly in the USA, where there are opportunities to significantly expand the business. The new structure will allow us to rationalise our current and projected business processes whilst also giving the opportunity to better protect the holding company, its European business and its intellectual property (and therefore the shareholders) and facilitate the future sale of the company.

Cognisco Group plc's offer allowed shareholders in Cognisco Limited to exchange their shares for the same number of new shares in Cognisco Group plc.

Cognisco Group PLC

Directors' report for the year ended 31 December 2008 (continued)

There were two stages to the process:

1. the transfer of shares in Cognisco Limited from the existing shareholders to Cognisco Group plc;
2. as consideration for that transfer, the allotment of shares in Cognisco Group plc to the current shareholders in Cognisco Limited.

Once the offer was accepted, existing Cognisco Limited shareholders became shareholders in Cognisco Group plc. The main differences between the existing company and the new public company are:

- the PLC name, which will assist our marketing efforts, especially in the USA;
- tighter regulation of the company and its directors under the Companies Acts, which is appropriate for a company with a large number of shareholders;
- a new constitution with articles of association suited to the new Companies Act 2006
- any future offer for the plc will (unless waived) be subject to the City Code on Takeovers and Mergers, which protects the interests of shareholders when an offer is made.

The voting and dividend rights of shareholders remain unchanged. The percentage holdings and numbers of shares of each shareholder are identical. The company gained HMRC clearance under section 138 Taxation of Chargeable Gains Act 1992.

BUSINESS ENVIRONMENT

The conditions in the global market in the last 12 months were more difficult than we had experienced to date. In the last six months since the bankruptcy of Lehman Brothers, substantial action taken by the UK and other governments, and a progressive deterioration in the expectations for global economic prospects, the changing business environment has been extraordinarily challenging and remains so. The general slowdown has affected a number of our key corporate accounts, particularly in the financial sector.

We have managed Cognisco carefully through this period and Cognisco Limited remained profitable. The Cognisco Group plc 2008 loss before tax of £670.6k includes £324.2k of individually significant and one-off items, including the set up of the US organisation and the Group restructuring. Our performance during the year has mainly been driven by the slow down in the global economy, particularly the US which affected our start up subsidiary.

Our priorities in 2008 were to build a strong prospect for sale, most visibly in the human capital/knowledge management/business intelligence sectors. Managing our risks through the unfolding crisis has been a significant focus in the second half of the year. The company has reduced its overheads and is looking for additional avenues to conserve working capital with the intent to continue to extend its reach in the US provided it can be sustainable from the second half of 2009. Managing these risks will continue to be a priority in 2009. The company has a strong balance sheet and no debt and is focussed on cost cutting, preserving cash, maintaining qualified management and developing our consulting business within our key accounts.

Cognisco Group PLC

Directors' report for the year ended 31 December 2008 (continued)

STRATEGY

As a result of the global economic crisis the company expects there to be a serious shortage of available capital to the resource industry for a number of years to come, and therefore we intend to manage our cash resources and focus on those opportunities which improve our customer's business performance and reduce risk. We also intend to continue to build our sales and marketing capability by entering into strategic partnerships with a particular focus on the public sector and those involved in government contracting.

Our framework for moving the strategy forward in 2009 has the following features:

- To focus on our core business, customer retention and cash,
- To continue to build our sales and marketing capability by entering strategic partnerships,
- To grow a sustainable business in the USA,
- To hone the value proposition/product set; and
- To prepare to enter the market with next generation products as the economy improves.

RESEARCH AND DEVELOPMENT

We continue to invest in product improvements and enhancements. New products in research and development use a competency framework driven architecture. This will enable the easy integration of 3rd party assessment content. Activity selection controls will replace question controls and new gaming technologies will be available for simulation assessments using Microsoft Semblio. The My* Know solutions will be available from Q3 2009 onwards.

FUTURE OUTLOOK

Whilst we recognise the global downturn has put undue pressure on our plans and our overall sales and profit margins, we believe our continued investment in our solutions is essential to the future of the business.

PRINCIPAL RISKS AND UNCERTAINTIES

We conduct regular risk reviews to identify risk factors which may affect our business and financial performance. Our Group Board reviews these risks and agrees measures and controls to mitigate these risks wherever possible. It is not possible to identify every risk that could affect our business, and the actions taken to mitigate the risks described below cannot provide absolute assurance that a risk will not materialise and/or adversely affect our business or financial performance.

With the rapid deterioration in the global economic environment during 2008, there is an increased risk of a further weakening in trading conditions in 2009 which could adversely impact the company's financial performance. The effect of a continued deterioration in the global economy will vary across our businesses and will depend on the depth, length and severity of any economic downturn.

Cognisco Group PLC

Directors' report for the year ended 31 December 2008 (continued)

Our principal risks and uncertainties are outlined below:

Risk	Mitigating Factors
<p>A significant deterioration in Group profitability and/or cash flow caused by a severe economic depression reducing our liquidity and/or impairing our financial ratios, triggering a need to raise additional funds from the capital markets and/or a renegotiation of our banking facilities.</p>	<p>The Group has a £1m on deposit with RBS and has negotiated an overdraft to secure additional funds if required. The company has reduced its overheads and intends to conserve working capital. The Group intends to apply for a UK Government Research and Development Grant early 2009 so as to enable a continuing investment in its research and development activity.</p>
<p>We operate in markets which are dependent on Information Technology (IT) systems and technological change.</p>	<p>We mitigate these IT risks by instilling strong IT policies and operational controls, employing project management techniques to manage new software developments and/or system implementations and have implemented an array of security measures to protect our IT assets from attacks or failures that could impact the confidentiality, availability or integrity of our systems.</p>
<p>Operational disruption to our business caused by a major disaster and/or external threats could restrict our ability to supply products and services to our customers.</p>	<p>We are developing business continuity arrangements, including IT disaster recovery plans and back-up delivery systems, to minimise any business disruption in the event of a major disaster. Insurance coverage may minimise any losses in certain circumstances.</p>
<p>A major data privacy breach may cause damage to our brands and financial loss.</p>	<p>We have introduced data security procedures and controls across all our businesses with the aim of ensuring personal data is secured and we comply with relevant legislation and contractual requirements. We have recently appointed a Data Security Officer to lead our various data privacy and security programmes.</p>
<p>Risk of non-payment debtors during the current economic uncertainty.</p>	<p>The company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual company is subject to a limit, which is re-assessed periodically by the board.</p>
<p>Changes in our tax position can significantly affect our reported earnings and cash flows.</p>	<p>We employ external tax professionals who review all significant arrangements around the world and respond to changes in tax legislation.</p>

Cognisco Group PLC

Directors' report for the year ended 31 December 2008 (continued)

CREDITOR PAYMENT POLICY

It is the Company and the Group's policy to settle the terms of payment with suppliers when agreeing the terms of the transaction to ensure that suppliers are aware of these terms and to abide by them. Intercompany and Group creditors are settled according to the nature of the balance. Creditor days for the Company at the year end amounted to 80 days.

KEY PERFORMANCE INDICATORS (KPIs)

Performance during the year, together with historical trend data, is set out in the table below:

	2008	2007	Definition, Method of Calculation and Analysis
	%	%	
Cognisco Ltd Net Profit before Tax	14.8	42.1	Profit before Tax of Cognisco Ltd expressed as a percentage
Cognisco USA Inc Net Loss before Tax	(435.0)	N/A	Loss before Tax of Cognisco USA Inc expressed as a percentage
Cognisco Group Plc Net Profit/(Loss) before Tax	(19.4)	42.1	Loss before Tax of Cognisco Group Plc expressed as a percentage
Net (Loss) / Profit before Tax (less exceptionals)	(9.5)	42.1	Loss before Tax of Cognisco Group Plc excluding exceptional items expressed as a percentage
(Decline) / Growth in Sales (%)	(19.3)	54.6	Year on year sales growth expressed as a percentage.
Gross Margin (%)	48.2	67.5	The ratio of gross profit to sales expressed as a percentage
Operating Profit Margin (%)	(12.3)	40.4	The ratio of operating profit to sales expressed as a percentage
Current Ratio	4.14	2.97	Liquidity ratio of fixed assets and current assets to liabilities
Trade Debtors (days)	90	47	Length of time in days it takes debtors to pay

Cognisco Group PLC

Directors' report for the year ended 31 December 2008 (continued)

DIRECTORS

The Directors who held office during the year are given below:

F Ruttonshaw (Chairman)
M Clarke (CEO) (Mrs)
S Sharp
K West

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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

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

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

AUDITORS

Keens Shay Keens MK resigned as auditors to the Company and PricewaterhouseCoopers LLP were appointed to fill the vacancy. PricewaterhouseCoopers LLP have expressed their willingness to continue in the office and in accordance with Section 384 of the Companies Act 1985, a resolution to re-appoint them as auditors of the Company is to be proposed at the Annual General Meeting.

Signed by order of the Board



Company Secretary

Approved by the directors on 27.4.2009

Cognisco Group PLC

Independent auditors' report to the members of Cognisco Group PLC

We have audited the consolidated and parent company financial statements (the "financial statements") of Cognisco Group PLC for the year ended 31 December 2008 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report and all other information listed on the contents page. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Cognisco Group PLC

Independent auditors' report to the members of Cognisco Group PLC (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the group's loss and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants & Registered Auditors
Milton Keynes

27 April 2009

Cognisco Group PLC

Profit and loss account for the year ended 31 December 2008

	Notes	2008 £	2007 £
Turnover	2	3,263,060	4,043,475
Cost of Sales		(1,692,023)	(1,321,355)
Gross Profit		1,571,037	2,722,120
Administrative expenses		(2,011,496)	(1,089,688)
Operating (Loss)/ Profit	3	(440,459)	1,632,432
Interest receivable	6	94,087	70,740
Amounts written off investments	11	(1)	(7)
Interest payable and similar charges		-	(2,821)
Exceptional items	7	(324,253)	-
(Loss) / Profit on ordinary activities before taxation		(670,626)	1,700,344
Tax on (loss) / profit on ordinary activities	8	(41,803)	(435,615)
(Loss) / Profit for the financial year		(712,429)	1,264,729

All results arise from continuing activities.

There are no recognised gains and losses other than those passing through the profit and loss account and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the loss on ordinary activities before taxation and the loss for the year stated above, and their historical cost equivalents.

The notes on pages 14 to 26 form part of these financial statements.

Cognisco Group PLC

Consolidated balance sheet as at 31 December 2008

	Notes	2008 £	2007 restated £
Fixed assets			
Intangible assets	9	525,657	180,389
Tangible assets	10	420,908	422,237
Investments	11	-	1
		946,565	602,627
Current assets			
Debtors	12	1,057,641	747,312
Cash at bank and in hand		1,061,284	2,892,874
		2,118,925	3,640,186
Creditors: Amounts falling due within one year	13	(742,417)	(1,227,227)
Net current assets		1,376,508	2,412,959
Total assets less current liabilities		2,323,073	3,015,586
Provisions for liabilities	14	(48,137)	(29,302)
Net assets		2,274,936	2,986,284
Capital and reserves			
Called-up equity share capital	17	50,238	50,182
Merger reserve	18	2,748,949	2,747,924
Profit and loss account	18	(524,251)	188,178
Shareholders' funds		2,274,936	2,986,284

The notes on pages 14 to 26 form part of these financial statements.

The financial statements on pages 10 to 26 were approved by the board of directors on 27.4.2009 and were signed on its behalf by:


F Ruttonshaw (Chairman)


Mrs M Clarke (CEO)

Cognisco Group PLC

Company balance sheet as at 31 December 2008

	Notes	2008 £
Fixed assets		
Intangible assets	9	71,639
Investments	11	50,240
		121,879
Current assets		
Debtors	12	175,811
Creditors: Amounts falling due within one year	13	(315,082)
Net current liabilities		(139,271)
Net Liabilities		(17,392)
Capital and reserves		
Called-up equity share capital	17	50,238
Profit and loss account	18	(67,630)
Shareholders' deficit		(17,392)

The notes on pages 14 to 26 form part of these financial statements.

The financial statements on pages 10 to 26 were approved by the board of directors on 27.4.2009 and were signed on its behalf by:


F Ruttonshaw (Chairman)


Mrs M Clarke (CEO)

Cognisco Group PLC

Consolidated cash flow statement year ended 31 December 2008

	Group 2008 £	Group 2007 restated £
Net cash flow from operating activities (Note 19)	(1,262,983)	2,789,726
Interest paid	-	(2,821)
Interest received	94,087	70,740
Returns on investments and servicing of finance	94,087	67,919
UK corporation tax paid	(82,953)	-
Taxation	(82,953)	-
Purchase of intangible fixed assets and capitalisation of development expenditure	(375,508)	(211,979)
Purchase of tangible fixed assets	(205,314)	(292,973)
Capital expenditure and financial investment	(580,822)	(504,952)
Receipts from issuing ordinary shares	1,081	31,532
Financing	1,081	31,532
(Decrease) / Increase in net cash	(1,831,590)	2,384,225

Reconciliation of net cash flow to movement in net funds:

	Group 2008 £	Group 2007 £
(Decrease) / Increase in net cash	(1,831,590)	2,384,225
Opening net funds at 1 January 2008	2,892,874	508,649
Closing net funds at 31 December 2008	1,061,284	2,892,874

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

	Group 2008 £	Group 2007 £
Operating (loss) / profit	(440,459)	1,632,432
Exceptional items	(324,253)	-
Amortisation	30,240	-
Depreciation	206,643	164,095
(Increase) / Decrease in debtors and accrued income	(310,329)	525,595
(Decrease) / Increase in creditors	(424,825)	467,604
Net cash flow from operating activities	(1,262,983)	2,789,726

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008

1. ACCOUNTING POLICIES

Basis of preparation

On 10 March 2008, Cognisco Group PLC was incorporated and on 16 July 2008 Cognisco Group PLC acquired all the ordinary shares of 1p each of Cognisco Limited in exchange for new shares of 1p each in the share capital of Cognisco Group PLC.

As this is the first trading period for the company, Cognisco Group PLC, no comparative information is provided.

The consolidated financial statements of Cognisco Group PLC have been presented under merger accounting rules. This means that the financial statements of Cognisco Group PLC and those of its wholly owned subsidiary Cognisco Limited have been aggregated and presented as if the two companies have always existed as a group. Accordingly, although Cognisco Group PLC acquired the entire share capital of Cognisco Limited on 16 July 2008, the results of both companies are reflected in the Group financial statements for the year ended 31 December 2008 and the comparative amounts, for the year to 31 December 2007, are presented on the same basis.

Cognisco Group PLC's other directly and indirectly held wholly owned subsidiaries, Cognisco Overseas Limited, Cognisco Systems Limited and Cognisco USA Incorporated have been consolidated in the consolidated financial statements under acquisition accounting from the date of their incorporation.

Accounting policies

The financial statements have been prepared in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. A summary of the more important accounting policies, which have been reviewed by the Board of Directors in accordance with Financial Reporting Standard (FRS) 18, 'Accounting policies', is set out below.

Basis of accounting

These financial statements are prepared on the going concern basis, under the historical cost convention.

Company profit and loss

The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and have not presented a profit and loss account for the Company alone. The Company made a loss of £67,630.

Revenue recognition

- a) Revenue earned for selling licences for the group's products is recognised when the risks and rewards of ownership of the licensed software is transferred to the customer.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

1. ACCOUNTING POLICIES (continued)

- b) Revenue earned for assessment projects designed to meet the specific requirements of a customer under a contract is recognised on a percentage-of-completion basis over the period from signing of the contract to customer acceptance of the final product. Under the percentage-of-completion method, provisions for estimated losses on uncompleted contracts are recognised in the period in which the likelihood of such losses is determined. The percentage-of-completion is measured by monitoring progress using records of actual time incurred to date in the project compared with the total estimated project requirement.
- c) Revenue earned for the maintenance of assessment projects sold to customers under a maintenance contract is recognised in equal monthly instalments over the period of the maintenance contract.
- d) Revenue is stated excluding value added tax, returns, rebates and discounts.

Change in accounting presentation

During the year the directors have decided to re-present the capitalised research and development expenditure from a tangible fixed asset to an intangible asset on the balance sheet.

As a result, brought forward tangible and intangible fixed asset cost and accumulated depreciation/amortisation have been restated. Current and prior year profits and net assets have been unaffected by this change.

Research and development

Expenditure on research and development is charged to the profit and loss account in the year in which it is incurred with the exception of expenditure on the development of computer software product and service projects where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility. Such expenditure is capitalised as an intangible fixed asset and amortised over a 10 year useful economic life. In the prior year, such expenditure was capitalised as a tangible fixed asset, see further the note above regarding the change in accounting presentation.

Intangible fixed assets

The costs of developing computer software product and service projects where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility are capitalised as intangible fixed assets.

The cost of patents and trademarks is capitalised as intangible fixed assets.

The cost of developing brands, which are controlled through custody or legal rights and could be sold separately from the rest of the business, are capitalised as intangible fixed assets.

Amortisation is calculated so as to write off the cost of intangible fixed assets over their useful economic life. These are considered to be:

Developed computer software	- 10 years
Patents and trademarks	- 10 years
Branding	- 10 years

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost, net of accumulated depreciation and any provision for impairment in value.

Depreciation is calculated so as to write off the cost of a tangible fixed asset, less its estimated residual value, over the useful economic life of that tangible fixed asset as follows:

Leasehold Improvements	-	20% straight line
Computer & Office Equipment	-	33.33% straight line
Fixtures & Fittings	-	15% straight line

Long term contracts

Amounts recoverable on long term contracts, which are included in debtors, are stated at the net sales value of the work done, less amounts invoiced as progress payments on account. Excess progress payments are included in creditors as payments on account.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lesser are charged against profits on a straight line basis over the period of the lease.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax, or a right to pay less tax, in the future.

Deferred tax is measured at the average tax rates expected to apply in the period in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax assets are only recognised to the extent that the group believes that sufficient future taxable profits of an appropriate type will be available. Deferred tax is measured on a non-discounted basis.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, either as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities. Financial income and expense is credited and charged to the profit and loss account as received and incurred under the substance of the contractual arrangement.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

1. ACCOUNTING POLICIES (continued)

Employee share schemes

At 31 December 2007 the group had an EMI share option scheme in place for twenty employees. The scheme involved granting options over 107,500 shares with a grant date of 1 November 2007 and an exercise price of 56p. There were performance related conditions of the scheme, which were based on the group's turnover and net profit before tax. These share options have lapsed in the year. The intention of the group is to issue additional share options in 2009 to eligible employees. The effect of the share scheme is not material and therefore full FRS 20 (share based payments) disclosures have not been provided.

Exceptional items

Items of income and expenditure are classified as exceptional items, where the nature of the item, or its size, is likely to be material so as to assist the reader of the financial statements to better understand the results of the operations.

2. ANALYSIS OF TURNOVER AND OPERATING PROFIT

Turnover and operating profit are wholly attributable to the Group's principal activity.

An analysis of turnover and operating (loss) / profit by origin is given below:

	Turnover		Operating (Loss) / Profit	
	2008 £	2007 £	2008 £	2007 £
United Kingdom and rest of Europe	3,082,548	4,043,475	213,975	1,632,432
Rest of World	180,512	-	(654,434)	-
	3,263,060	4,043,475	(440,459)	1,632,432

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

3. OPERATING (LOSS) / PROFIT

Operating (loss) / profit is stated after charging:

	2008 £	2007 £
Salaries	1,645,141	1,128,959
Social security costs	177,636	114,527
Staff costs	1,822,777	1,243,486
Depreciation of tangible fixed assets	206,643	164,095
Amortisation of intangible fixed assets	30,240	-
Operating lease rentals		
– plant and machinery	-	-
– other	79,893	79,893
Research and development expenditure	48,026	132,370
Foreign exchange losses	64,488	15,241
Services provided by the company's auditor		
Fees payable for the audit of parent company and consolidated financial statements	5,000	-
Fees payable to the company's auditor and its associates for other services:		
The audit of company's subsidiaries pursuant to legislation	19,000	7,200
Tax services	11,500	-

4. DIRECTORS' EMOLUMENTS

	2008 £	2007 £
Aggregate emoluments	313,351	374,562
Highest paid director:		
Aggregate emoluments	160,000	155,000

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

5. EMPLOYEE INFORMATION

The average monthly number of persons (including executive directors) employed by the group during the year was:

By activity	2008	2007
Production	10	9
Selling and Sales Support	17	6
Product development	5	1
Administration	5	4
	37	20

6. INTEREST RECEIVABLE

	2008	2007
	£	£
Bank interest receivable	94,087	70,740

7. EXCEPTIONAL ITEMS

Exceptional items of £324,253 are in respect of the costs incurred in the fundamental restructuring of the business resulting in the formation of Cognisco Group PLC, Cognisco Systems Limited, Cognisco Overseas Limited and Cognisco Inc and the exchange of shares by the shareholders of Cognisco Limited for the same number of new shares in Cognisco Group PLC. These costs relate to the legal and professional advice obtained and employee-related costs involved in the creation of the US operation.

The exceptional expenses have all been treated as disallowable for corporation tax. This has had the following effect on the tax position of the Group:

Decrease the trading loss in Cognisco Inc. No deferred tax has been provided in respect of this loss. (see further note 14).

Increase the profit chargeable to tax in Cognisco Limited, resulting in an additional tax charge in respect of the current year profits of £15,000.

Decrease the trading loss in Cognisco Systems Limited. This has decreased the amount of losses available for group relief and increased the current tax charge in Cognisco Limited and on consolidation by £9,000.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

8. TAXATION ON ORDINARY ACTIVITIES

Analysis of charge in the year

	2008 £	2007 £
Current tax:		
United Kingdom		
Corporation tax at 28.5% (2007: 30%)	25,744	84,325
Foreign tax		
Corporation tax	1,500	-
Other current tax		
Adjustment to tax charge in respect of prior period	(4,276)	-
Total current tax	22,968	84,325
Deferred tax:		
Origination and reversal of timing differences (note 14)		
- Capital allowances in the UK	18,835	29,302
- Losses	-	321,988
Total deferred tax (note 14)	18,835	351,290
Tax on profit on ordinary activities	41,803	435,615

Factors affecting current tax charge

The Group operates in the United Kingdom and United States of America. The standard rate of corporation tax applicable to the Group has been calculated as a weighted average of the tax rates in each of these countries. The weightings used have been the relative results of operations in each country.

The tax assessed on the profit on ordinary activities for the year is higher (2007: lower) than the standard rate of corporation tax applicable to the Group of 44.7% (2007: 30%). The differences are explained below.

	2008 £	2007 £
(Loss) / Profit on ordinary activities before taxation	(670,626)	1,700,344
Profit on ordinary activities by standard rate of corporation tax applicable to the Group of 44.7% (2007: 30.0%)	(299,770)	510,103
Expenses disallowed	210,536	1,154
Capital allowances in excess of depreciation	(27,367)	(31,257)
R & D tax relief	(66,183)	(19,085)
Utilisation of trading losses carried forward	-	(347,822)
Unprovided trading losses carried forward	208,528	-
Marginal relief	-	(28,768)
Foreign tax	1,500	-
Adjustment to tax charge in respect of prior period	(4,276)	-
Current tax charge for the period	22,968	84,325

Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

9. INTANGIBLE ASSETS

Group

	Development expenditure £	Patents and trademarks £	Branding £	Total £
Cost				
At 1 January 2008 (restated)	211,979	-	-	211,979
Additions	281,681	43,827	50,000	375,508
At 31 December 2008	493,660	43,827	50,000	587,487
Amortisation				
At 1 January 2008 (restated)	31,590	-	-	31,590
Charge for the period	28,784	1,456	-	30,240
At 31 December 2008	60,374	1,456	-	61,830
Net book value				
At 31 December 2008	433,286	42,371	50,000	525,657
At 31 December 2007 (restated)	180,389	-	-	180,389

Company

	Patents and trademarks £	Branding £	Total £
Cost			
On incorporation	-	-	-
Additions	22,194	50,000	72,194
At 31 December 2008	22,194	50,000	72,194
Amortisation			
On incorporation	-	-	-
Charge for the period	555	-	555
At 31 December 2008	555	-	555
Net book value			
At 31 December 2008	21,639	50,000	71,639

Development expenditure relates to the development of computer software products and service projects where the outcome of those projects is assessed as being reasonably certain as regards viability and technical feasibility.

During the year the directors have decided to re-present the capitalised research and development expenditure from a tangible fixed asset to an intangible asset on the balance sheet. As a result, brought forward tangible and intangible fixed asset cost and accumulated depreciation/amortisation have been restated.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

10. TANGIBLE FIXED ASSETS

Group

	Leasehold property £	Computer and office equipment £	Fixtures & fittings £	Total £
Cost				
At 1 January 2008 (restated)	66,979	547,722	104,244	718,945
Additions	12,567	173,801	18,946	205,314
At 31 December 2008	79,546	721,523	123,190	924,259
Depreciation				
At 1 January 2008 (restated)	-	277,376	19,332	296,708
Charge for the period	15,023	174,417	17,203	206,643
At 31 December 2008	15,023	451,793	36,535	503,351
Net book value				
At 31 December 2008	64,523	269,730	86,655	420,908
At 31 December 2007 (restated)	66,979	270,346	84,912	422,237

For details of the change in accounting presentation, see further note 9.

Company

The company has no tangible fixed assets.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

11. INVESTMENTS IN SUBSIDIARIES

Group

The group held the entirety of the £1 of issued share capital of Nettrain UK Limited, which was a dormant company in the prior year and has been dissolved during the period. The group has therefore written off its £1 investment in this entity.

Company

Shares in group undertakings:

	£
Cost	
On incorporation	-
Additions in year	50,240
At 31 December 2008	50,240
Amounts written off	
At 31 December 2008	-
Net book value	
At 31 December 2008	50,240

The company's investments in subsidiaries is as follows:

	County of registration or incorporation	Shares held		Business description
		Class	%	
Subsidiary undertakings				
<i>Directly held:</i>				
Cognisco Limited	England and Wales	Ordinary	100	UK operating subsidiary for Cognisco's knowledge based assessment solutions.
Cognisco Systems Limited	England and Wales	Ordinary	100	Creates, sells and maintains specialist knowledge based assessment software under the brand Cognisco*KNOW
Cognisco Overseas Limited	England and Wales	Ordinary	100	Overseas sales and marketing of Cognisco's knowledge based solutions including ownership of Cognisco USA Inc.
<i>Indirectly held:</i>				
Cognisco USA Inc	United States of America	Ordinary	100	US sales and marketing of Cognisco's knowledge development products and services.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

11 INVESTMENTS IN SUBSIDIARIES (continued)

On 16 July 2008 the shareholders in Cognisco Limited exchanged their 5,023,811 of 1p ordinary shares for 5,023,811 of 1p ordinary shares in Cognisco Group PLC. Shares in Cognisco Limited were transferred from the existing shareholders to Cognisco Group PLC.

Cognisco Systems Limited and Cognisco Overseas Limited were incorporated in the year, both on 13 June 2008. Cognisco Group PLC holds the entirety of the £1 of issued share capital of both of these entities.

12. DEBTORS

	Group 2008 £	2007 £	Company 2008 £
Amounts falling due within one year			
Trade debtors	908,067	613,942	-
Amounts owed by group undertakings	-	-	175,811
Amounts recoverable on long term contracts	37,755	-	-
Prepayments	111,819	133,370	-
	1,057,641	747,312	175,811

Amounts owed by group undertakings are unsecured, interest free, have no fixed date for repayment and are repayable on demand.

13. CREDITORS

	Group 2008 £	2007 £	Company 2008 £
Amounts falling due within one year			
Payments received on account on long term contracts	144,315	624,143	-
Trade creditors	309,542	194,941	-
Amounts owed to group undertakings	-	-	315,082
Taxation and social security	184,095	167,720	-
Accruals	104,465	240,423	-
	742,417	1,227,227	315,082

Amounts due to group undertakings are unsecured, interest free, have no fixed date for repayment and are repayable on demand.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

14. PROVISIONS FOR LIABILITIES

	Deferred tax £
At 1 January 2008	29,302
Charged to the profit and loss account	18,835
At 31 December 2008	48,137

The balance of the deferred taxation account consists of:

	2008 £	2007 £
Accelerated capital allowances	48,137	29,302

No deferred tax has been recognised in respect of trading losses carried forward in the US subsidiary as there is insufficient certainty that these can be utilised in the future. The amount of unprovided deferred tax on these losses is £208,528 (2007: nil).

15. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2008 the group had aggregate annual commitments under non-cancellable operating leases as set out below.

	2008 Land and Buildings £	Other £	2007 Land and Buildings £	Other £
Operating Leases which expire: Within 2 to 5 years	79,893	-	79,893	-

16. RELATED PARTY TRANSACTIONS

Details of related party transactions are as follows:

Name of related party	Nature of relationship	Transaction Details	Amount	Balance due at balance sheet date	Amounts written off in the period
Year Ended 31 December 2008:					
K West	Director	Consultancy	34,000	-	-
Year Ended 31 December 2007:					
K West	Director	Consultancy	24,000	-	-

K West is paid through a third party, Fernshaw Development Group Limited, for the consultancy work he performs for the group.

Cognisco Group PLC

Notes to the financial statements year ended 31 December 2008 (continued)

17. SHARE CAPITAL

	2008 £	2007 £
Authorised		
7,500,000 ordinary shares of £0.01 each	75,000	75,000
Allotted and fully paid		
5,023,830 (2007: 5,018,197) ordinary shares of £0.01 each	50,238	50,182

The company was incorporated on 10 March 2008.

On 16 July 2008, the Company allotted 5,023,811 ordinary shares of 1p each, pursuant to the acquisition and share exchange of the entire share capital of Cognisco Limited, receiving 5,023,830 shares in aggregate.

18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £	Merger reserve £	Profit and loss account £	Total shareholders' funds £
Group:				
At 1 January 2008	50,182	2,747,924	188,178	2,986,284
Issued during year	56	1,025	–	1,081
Loss for the year	–	–	(712,429)	(712,429)
Other movements	–	–	–	–
Balance carried forward	50,238	2,748,949	(524,251)	2,274,936
Company:				
On incorporation	–	–	–	–
Issued during the year	50,238	–	–	50,238
Loss for the year	–	–	(67,630)	(67,630)
Balance carried forward	50,238	–	(67,630)	(17,392)

On 16 July 2008 the shareholders in Cognisco Limited exchanged their shares for the same number of new shares in Cognisco Group PLC. Shares in Cognisco Limited were transferred from the existing shareholders to Cognisco Group PLC. As consideration for that transfer the shares were allotted to the existing shareholders in Cognisco Limited.

19. CONTROLLING INTEREST

Cognisco Group PLC is the ultimate parent company of the group. There is no majority controlling shareholder of Cognisco Group PLC.