

2ergo Group plc
 (“2ergo” or “the Group”)

Preliminary Results for the Year Ended 31 August 2009

2ergo is a leading provider of mobile enabling technologies in four key areas: business, entertainment, media and marketing. The Group’s technological expertise and innovative approach has led it to partner with some of the world’s most respected brands, across a broad range of sectors.

The 2ergo Multiserve Platform continues to benefit from many years’ research and development. Its unique set of technologies form the intelligence and billing layer between mobile network operators, the internet and customer facing applications. It integrates voice, data, text, email, video and mobile internet channels, flexibly and seamlessly, to form a powerful yet agile nucleus from which new and innovative mobile solutions can be developed.

The Group is pleased to announce its preliminary results for the year ended 31 August 2009.

	2009	2008	
	£000	£000	% change
Revenue	22,693	32,565	-30%
Gross profit	10,887	9,769	+11%
Pre-tax profit ⁽¹⁾	3,813	3,446	+11%
EBITDA ⁽¹⁾	4,968	4,104	+21%
Basic earnings per share ⁽¹⁾	9.87p	8.54p	+16%

⁽¹⁾ figures stated before £3.2 million impairment charge in respect of initial investment in Broca plc

Highlights

- Gross profit from direct sales and enhanced Business Partner Programme up 26% to £10.1 million, increasing overall gross margin from 30% to 48%, ahead of expectations.
- Strategy to reduce exposure to high-volume low-margin wholesale distribution business seeing continuing success.
- EBITDA, before impairment of initial investment in Broca plc, up 21% from £4.1 million to £5.0 million.
- Americas region reports first profits.
- Expansion into Asia and Australia and broadening of product set through acquisitions.

- Growing number of global clients.
- Market leading product set starting to be rolled out across all regions.
- Completed buy-back of 1 million 2ergo shares into treasury, at a cost of £1.4 million.
- Cash reserves of £6.4 million at the year end and debt free.
- Ideally positioned to reap significant benefits from investment in additional sales, marketing and support resources in order to drive turnover growth across all geographies.

Neale Graham, Joint Chief Executive of 2ergo, commented:

“It is pleasing to deliver yet another set of strong results, particularly over a period of global economic uncertainty. In addition to achieving organic growth, the management team has made great strides globalising and scaling the business by developing 2ergo’s services in targeted geographies, together with the completion of three strategic acquisitions.

“It is also exciting that this year, more than any other, has seen technology start to revolutionise the use of mobile communications; commercial awareness of this has never been higher. With mobile hardware penetration reaching record levels of over 4 billion subscribers worldwide, it is clear that the demand for mobile services over the next few years will undoubtedly follow, and with the broadening of those services and applications the mobile handset is destined to become the “Life-Style and Business Remote Control”.

“The evolution of mobile technology mirrors our original strategy and it is rewarding to see the 2ergo technology, which has been 10 years in the making, really come alive. Now is the time to build on our success, invest in the future, and maximise these global opportunities. There has never been a more exciting time to be in mobile”.

CHAIRMAN'S STATEMENT

I am pleased to report another very strong year for 2ergo. The strategy to focus on direct sales and the enhanced Business Partner Programme is paying dividends and the Group's gross profit margin has increased from 30% to 48% as a result of the move away from the wholesale reseller business. Earnings before interest, tax, depreciation, amortisation and impairment charges for the year have increased from £4.1 million to £5.0 million, a rise of some 21%.

2ergo has continued to enjoy organic growth and, despite the global economic downturn, during the period the Group has completed three key strategic acquisitions adding new products, new technological innovations and an extended pool of quality people with significant expertise in the industry. Crucially, the Board believes that these acquisitions will provide the Group with extensive geographical reach into some of the fastest growing world markets.

In April 2009, 2ergo completed the acquisition of Broca plc, with patented technology for end-to-end security over multiple mobile communication protocols. In May 2009, the Group acquired Australian-based Wapfly Technologies, whilst July 2009 saw 2ergo's expansion into India following the acquisition of Activemedia Technologies, leading providers of mobile ticketing and couponing with offices in New Delhi, Mumbai and London.

The Group chose these technology-rich acquisitions in strategically important regions as part of its plan to expand the business globally and to better serve its blue chip clients who are increasingly eager to reach the whole addressable mobile market on a global scale. These three key businesses have a strong future and 2ergo is committed to helping them realise their full growth potential. This year, the Group will make substantial further investment in, people, technology and operations to complete the integration of the acquisitions and globalise its products and solutions.

Over the past 10 years, 2ergo has delivered impressive growth which has put the business in a market leading position. To further accelerate the Group's growth, the management team has been strengthened by the appointment of high-quality people who have proven and wide-ranging experience in building successful businesses and in integrating acquisitions. I am confident that we have the best team, with the right skills, to execute our plans and take the business to the next level.

The Group's innovative technology and services have been developed to scale with the business. The mobile market is growing beyond the early predictions, and with continued investment and sound leadership, 2ergo looks forward to executing its very exciting strategy.

KEITH SEELEY
CHAIRMAN

MANAGEMENT REVIEW

Financial Performance

The strategy announced by the Board last year to focus on higher-margin direct sales and the enhanced Business Partner Programme and reduce the Group's exposure to low-margin wholesaler-introduced business has continued to pay dividends, as follows:

	Revenue			Gross Profit		
	2009 £000	2008 £000	% Change	2009 £000	2008 £000	% Change
Direct/Business Partner	11,720	9,071	+29%	10,058	8,013	+26%
Wholesale Reseller Channel	10,973	23,494	-53%	829	1,756	-53%
	<u>22,693</u>	<u>32,565</u>	<u>-30%</u>	<u>10,887</u>	<u>9,769</u>	<u>+11%</u>

Total revenue for the year was £22.7 million, compared to £32.6 million in 2008. This reflects the Group's strategy of reducing business from its wholesale reseller clients, with revenue from this area now £11.0 million (2008: £23.5 million). Gross profit from these wholesale services was £0.8 million (2008: £1.7m), a reduction of just £0.9 million. Conversely, gross profit generated by the redeployment of resources from the delivery of wholesale services into the delivery of direct and Business Partner Programme sales increased by £2.1 million in the year, validating this strategy.

Revenues generated through direct sales and Business Partners increased from £9.1 million to £11.7 million, a rise of 29%, whilst gross profit grew by 26%, up from £8.0 million in 2008 to £10.1 million this year. Gross margins in this area remained consistently high at 86%, (2008: 88%). Total Group gross profit for the year rose from £9.8 million to £10.9 million, with overall Group gross margins growing from 30% to 48%.

The focus on selling direct to customers or through sophisticated business partners means that by understanding the needs of its customers better, 2ergo is well positioned to generate significant increases in revenue. Also, crucially, the Group's increased reach offers the opportunity to sell its products and services to existing customers in new regions.

Group overheads for the year, before impairment charges, were £7.3 million (2008: £6.8 million). The increase in overheads reflects the investment made by the Group during the year in strengthening the management team and product set to capitalise on the growing global opportunities for 2ergo. This investment, together with investment in the recent acquisitions, will continue into the coming year as the Board seizes the vast opportunities for the growth of 2ergo.

Group operating profit, before impairment charges, rose to £3.6 million (2008: £3.0 million), an increase of 19%. The impairment charge of £3.2 million arose in the first half of the financial year, when 2ergo held a 19.2% interest in Broca plc which was accounted for as an available for sale investment. In accordance with the principles of IAS 39, the carrying value of the asset was required to be written down to the quoted share price of Broca plc, giving rise to the impairment charge of £3.2 million through the income statement for the 6 months to February 2009.

Subsequent to the half year, 2ergo completed the acquisition of the remaining share capital of Broca plc. The goodwill arising on the acquisition of the entire 100% interest in Broca plc is £6.8

million (including £3.2 million in relation to the initial 19.2% holding). This is supported by its value in use and is not considered to be impaired.

In terms of overall net asset values, the impairment charge arising in the first half of the year has been reversed in the second half, but IAS 39 requires that the reversal of the original charge is not put through the income statement. The overall impact is that while the income statement includes an impairment of £3.2 million in respect of the previously held available for sale investment, the subsequent acquisition accounting is such that the impairment is reversed within the balance sheet and reinstated within goodwill.

EBITDA before impairment charges grew by 21% from £4.1 million to £5.0 million. Of the amortisation charge for the year, £0.1 million was in respect of acquisitions made by the Group. Profit before tax and impairment charges was £3.8 million compared to £3.4 million in 2008, an increase of 11%. After the goodwill impairment charge of £3.2 million, the profit before tax was £0.6 million (2008: £3.4 million).

The effective tax rate for the year, based on profit before the impairment charge, was 21% (2008: 26%), and basic earnings per share, before goodwill impairment, was 9.87p, compared to 8.54p in 2008, an increase of 16%.

Net assets at the year end stood at £23.5 million (2008: £16.1 million). Cash of £3.5 million was generated from operating activities, compared to £1.2 million in 2008. Following the purchase of 1 million 2ergo shares into treasury, together with continued investment into technology and product development and the completion of the acquisitions, cash balances at the year end were £6.4 million (2008: £9.1 million). The Group will consider opportunities to buy back further shares as and when appropriate.

The Group has continued its progress in the Americas region during the year, with revenue growth to \$3.7 million (2008: \$2.5 million) an increase of 48%. The Board is delighted that 2ergo Americas reports a profit for the first time this year, with \$365k being generated, compared to a loss of \$955k in 2008. This represents a turnaround of some \$1.3 million. Now that the Group's model in the Americas has been proven, the Board is fuelling growth in that region, with investment since the year end which includes a new regional managing director and senior sales staff. The Board believes that over the coming years this investment will allow 2ergo Americas to grow significantly.

During the year 2ergo completed the acquisition of Broca plc, Wapfly Technologies Pty Limited and Activemedia Technologies Limited (AMT). All of these acquisitions are technology-rich companies, who are either pre-revenue or in early stages of revenue generation. The contribution of these acquisitions to both revenue and profitability this year has been minimal but, with continued investment during the new financial year, all are expected to contribute to profitability by the end of 2009/10. It is the Board's intention to develop these businesses in a similar manner to 2ergo Americas, which is now demonstrating significant underlying value following its successful turnaround.

At the year end, these acquisitions were valued within intangible assets at £17.1 million, with deferred consideration estimated at £7.0 million. The deferred consideration in respect of AMT is an estimate based on management forecasts, calculated as 4 times AMT India profit after tax and 2.8 times AMT UK operating profit for the year to 31 August 2012, which will be payable between November 2009 and November 2013, dependent on AMT achieving agreed levels of

financial performance and subject to an overall consideration cap. Consideration will be settled, at the discretion of 2ergo, by the issue of new 2ergo ordinary shares or loan notes.

Consideration for the acquisition of Broca plc was satisfied by the issue of 0.0909 of a 2ergo share in exchange for each Broca share, whilst the Wapfly consideration was settled in cash after the year end. Details of the values attributable to each acquisition in terms of asset value and deferred consideration are shown in note 4 to these preliminary results.

The Group's cash position, its debt free status, its increased global footprint in high-growth geographies and its award winning product set mean 2ergo is ideally positioned to enter its next growth phase with confidence.

Operational Review

During the year, the Group has continued its strategy of increasing its global footprint to capitalise on the boom in mobile services in some of the fastest growing regions in the world. In early 2009, 2ergo relocated its global headquarters to the centre of MediaCity UK in Manchester. MediaCity UK is fast becoming a significant international hub for the media and creative industries with the UK's leading broadcast, media and technology companies at its heart. Following its recent acquisitions, the Group now has offices in Manchester, London, Washington, New York, New Delhi, Mumbai, Sydney and Buenos Aires and employee numbers have increased from 82 to over 150 during the year.

In April 2009, 2ergo acquired Broca plc and its patented technology for end-to-end security over multiple mobile communication protocols. This technology provides secure data transfer solutions for mobile phone and wireless networks and has particularly strong potential in emerging markets such as Asia, Africa and South America to facilitate secure mobile payments, money transfers and banking solutions. The Board is pleased with the progress made since acquisition in integrating the Broca technology into 2ergo's product set, and with the opportunities developing in the sales pipeline.

The acquisition of Australian-based Wapfly Technologies Pty Limited, in May 2009, is part of a move to extend the Group's reach into the Asia-Pacific region. 2ergo is now making great headway in the mobile marketing and broadcast sectors in Australia, and once the migration of its full product range into the region has been completed in 2009/10, the Group will become active in other core sectors. 2ergo now serves, amongst others, media giant ABC (Australian Broadcasting Corporation) with its mobile internet and smartphone applications.

In July 2009, the Group expanded into India following the acquisition of Activemedia Technologies Limited, with offices in New Delhi, Mumbai and London. 2ergo now provides mobile value added services and solutions in India, and is a leading supplier of mobile ticketing and couponing, delivering the couponing redemption technology behind the highly successful 'Orange Wednesdays' campaign in Europe. This acquisition holds vast potential and gives 2ergo access to one of the world's fastest growing mobile markets. There were 472 million mobile subscribers in India as at 30 September 2009, and with subscriber numbers increasing by 15 million in September 2009 alone (*source: Telecom Regulatory Authority of India*), the acquisition opens up a vast audience to 2ergo and its clients.

In addition to the increased geographical reach afforded to 2ergo as a result of these acquisitions, each brought to the Group experienced staff and management, together with

significant additions to the Group's product suite. Since the acquisitions were completed, Zergo has invested significantly in incorporating these new products into its existing award winning product set, and in readying them for the roll out of all products across all regions throughout the coming year. Global product consolidation will enable organisations to seamlessly move between Zergo products thus enhancing their mobile offering and increasing sales and customer loyalty. This investment will continue into 2009/10 and is expected to generate significant revenues during the latter part of that year and subsequent years.

An example of the success the Group has had in the year following this investment in its technology has been with its mobile internet and Smartphone applications product lines, enabling organisations to launch engaging interactive services across Smartphone platforms such as Apple iPhone, Google Android, Blackberry and Windows. Some key projects undertaken during the year include the Rightmove application, the FOX Business Smartphone application in the US and the ABC application in Australia.

Customer retention rates continue to run close to 100% and established clients such as O2, AT&T and leading media brands are increasingly helped by Zergo to grow their mobile services, once again proving the strength of Zergo's product set. In addition to numerous high profile client wins, the Group has secured relationships with Business Partners such as Ogilvy, McCann Erickson and BBH in the UK and Group M and Kantar Operations (part of WPP group) globally.

Zergo also made pleasing progress in the Americas region during the year, reporting its first profit and expanding its network operator and media relationships by delivering new services for customers such as AT&T and National Geographic Channel and adding MetroPCS to its customer base. The Group's relationships with leading household names such as Proctor and Gamble also continued to grow and Zergo now provides solutions for them in India as well as Latin America, as a direct result of the Group's increased geographic presence. Recent services have included mobile loyalty campaigns for leading brands such as Gillette and Pampers utilising Zergo's mobile couponing services. To support this growth, the Group has appointed a new Managing Director of Zergo Americas who is a recognised and well-respected figure in the mobile communications industry.

Following the Group's launch into India, Zergo is quickly establishing itself in that region, being selected by one of India's largest network operators as their mobile couponing partner. Similar progress is being made in Australia, where investment has been made in expanding the sales, technical and operational support teams, the benefits of which are already starting to be seen as a healthy pipeline continues to develop in that region.

The Group is also benefiting from reduced operating costs and improved efficiencies as a result of migrating certain development functions to India and South America.

Markets and Opportunity for Growth

As global awareness and consumer appetite for mobile services continues to rise, the opportunity for significant growth for Zergo is excellent. There are now over 4 billion mobile subscribers in the world, equating to a global market penetration of 61.1% (*source: International Telecommunication Union*), and the pace of growth is faster than any other technological development in history. Of these subscribers, 2 billion are capable of accessing the mobile web from their handset. This compares with only 1 billion PC/laptop users being able to access the

internet, 1.5 billion TV subscribers and 1.2 billion fixed line telephone users (*source: Google In Mobile 2009*). Moreover, with fixed line internet access in developing countries being limited and, if available, often slow and expensive, the growth of global mobile services, mobile banking and mobile commerce is assured. The Group's proven technology means that it is ideally placed to exploit this demand.

Investment Strategy

As the penetration of high-tech handsets increases, the growth of mobile services and use of Zergo's services follows. The Board therefore believes that the time is right to make significant investment in the Group's ability to deliver these services on a larger scale. The Board has considered a range of potential capital acquisitions of established businesses in order to gain greater scale. It now believes that investment in the Group's existing operations, including its recently acquired businesses, is the best means by which to achieve the operational scale required to fully capitalise on the opportunity for significant growth.

Investment will be made in the following:

- additional sales and marketing staff in order to drive growth in revenue across all geographies;
- technical support staff in order to ensure consistency of service across a larger customer base through standardisation and globalisation of Zergo's products and services;
- corporate processes and structures in order to ensure the effective operation of the enlarged multi-geographical Group; and
- technology in order to ensure robust global delivery of services.

This investment and the ramp-up of the scale of the Group's operations will predominantly take place during the first half of 2009/2010 and will result in a materially increased overhead to be supported by the Group. It is anticipated that the investment will be funded out of existing cash reserves. Staff numbers are expected to increase from 152 at the end of August 2009 to 240 during the year to August 2010, resulting in an expected increase in the annual overhead charge for the year to 31 August 2010 as follows:

Description	£m
Additional sales and marketing staff costs	2.1
Full year staff costs within Wapfly, AMT and Broca	1.4
Additional technical staff costs	1.0
Additional staff costs to support enlarged group	0.3
Other staff cost increases	0.4
Total staff cost increases	5.2
Non-staff overheads from acquisitions	0.8
Incremental operating costs arising from capital investment	0.5
Additional operating costs for enlarged group	0.6
Total other cost increases	1.9
Total forecast increase in overhead for the year to 31 August 2010	7.1

Future Trading

Zergo has already started to see growth from the migration of its existing products into all geographies with sales of its services into new and existing customers. The Group's pipeline of potential new business from blue chip companies has never been stronger, and Zergo's existing well proven revenue model of charging upfront development fees, monthly service annuity fees and transactional fees is now being successfully established in all geographies. Following the investment to be made in scaling the business, the Board expects a considerable increase in long term annuity revenue to be seen in the latter part of 2009/10. This should lead to significantly increased revenues, gross profits and operating profits across all territories in the financial year 2010/11.

Outlook

The market-size statistics alone confirm that well-established and proven companies within the mobile market are set to benefit from the inevitable commercial growth of the mobile industry and, in particular, data services. The Board believes that Zergo is best placed to lead the market with its unique full-service solution. Proven and used by an ever increasing number of world leading organisations, the Group's suite of self-service products gives its blue chip customers the holistic approach to mobile marketing, customer relationship management and the mobile entertainment and media they demand.

It is against this backdrop of a rapidly growing market, coupled with strong management, a clear strategy, an established global footprint and a healthy new business pipeline that Zergo's outlook has never been stronger.

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For further information, please contact:

Zergo Group plc

Neale Graham, Joint CEO
Barry Sharples, Joint CEO
Jill Collighan, Finance Director

+44 (0)161 874 4222

Tavistock Communications

Lulu Bridges / Andrew Dunn

+44 (0)20 7920 3150

Numis Securities Limited

Stuart Skinner as Nominated Advisor
David Poutney as Corporate Broker

+44 (0)20 7260 1000

Consolidated income statement
for the year ended 31 August 2009

	Note	2009 £000	2008 £000
Revenue		22,693	32,565
Cost of sales		(11,806)	(22,796)
Gross profit		10,887	9,769
Administrative costs		(10,502)	(6,761)
Operating profit before impairment of available for sale investment		3,579	3,008
Impairment of available for sale investment	2	(3,194)	-
Operating profit		385	3,008
Finance income		234	438
Profit before taxation		619	3,446
Taxation		(803)	(911)
(Loss)/profit for the financial year		(184)	2,535
Earnings per share			
Basic	3	(0.60)p	8.54p
Diluted	3	(0.60)p	8.27p

All activities relate to continuing operations.

Consolidated balance sheet
as at 31 August 2009

	Note	2009 £000	2008 £000
Non-current assets			
Intangible assets	4	21,273	2,937
Property, plant and equipment		823	362
Available for sale investments		-	1,610
Loan to related party		-	500
		22,096	5,409
Current assets			
Trade and other receivables		6,068	6,817
Cash and cash equivalents		6,434	9,120
		12,502	15,937
Total assets		34,598	21,346
Current liabilities			
Trade and other payables		(3,878)	(4,742)
Current income tax payable		(267)	(498)
		(4,145)	(5,240)
Non-current liabilities			
Other payables		(6,736)	-
Deferred income tax liability		(225)	-
		(6,961)	-
Total liabilities		(11,106)	(5,240)
Net assets		23,492	16,106
Capital and reserves attributable to equity holders of the parent			
Share capital		335	306
Share premium		7,724	7,724
Investment in own shares		(1,373)	-
Merger relief reserve		3,375	-
Merger reserve		1,512	1,512
Other reserve		(338)	(338)
Share option reserve		914	813
Retained earnings		11,343	6,089
Total equity		23,492	16,106

**Consolidated statement of changes in equity
for the year ended 31 August 2009**

	Share capital £000	Share premium account £000	Investment in own shares £000	Merger relief reserve £000	Merger reserve £000	Other reserve £000	Share option reserve £000	Retained earnings £000	Total £000
Balance at 31 August 2007	301	7,141	-	-	1,512	(413)	605	6,170	15,316
Valuation loss on available for sale investment taken to equity	-	-	-	-	-	-	-	(2,995)	(2,995)
Tax on items taken directly to or transferred from equity	-	-	-	-	-	-	-	320	320
Net loss recognised directly in equity	-	-	-	-	-	-	-	(2,675)	(2,675)
Profit for the year	-	-	-	-	-	-	-	2,535	2,535
Total recognised income and expense for the year	-	-	-	-	-	-	-	(140)	(140)
Issue of share capital	5	583	-	-	-	-	-	-	588
IFRS 2 share based payment expense	-	-	-	-	-	-	267	-	267
Fair value of options exercised in the period	-	-	-	-	-	-	(59)	59	-
Exercise of options over shares in EBT	-	-	-	-	-	75	-	-	75
Balance at 31 August 2008	306	7,724	-	-	1,512	(338)	813	6,089	16,106
Recycling of valuation loss on available for sale investment taken to equity	-	-	-	-	-	-	-	2,394	2,394
Reinstatement of cost of previously impaired available for sale investment	-	-	-	-	-	-	-	3,194	3,194
Tax on items taken directly to or transferred from equity	-	-	-	-	-	-	-	(150)	(150)
Net gain recognised directly in equity	-	-	-	-	-	-	-	5,438	5,438
Loss for the year	-	-	-	-	-	-	-	(184)	(184)
Total recognised income and expense for the year	-	-	-	-	-	-	-	5,254	5,254
Issue of share capital	29	-	-	3,375	-	-	-	-	3,404
Purchase of shares into treasury	-	-	(1,373)	-	-	-	-	-	(1,373)
IFRS 2 share based payment expense	-	-	-	-	-	-	101	-	101
Balance at 31 August 2009	335	7,724	(1,373)	3,375	1,512	(338)	914	11,343	23,492

Consolidated cash flow statement
for the year ended 31 August 2009

	2009	2008
	£000	£000
Cash flows from operating activities		
Profit before taxation	619	3,446
Adjustments for:		
Impairment of available for sale investment	3,194	-
Depreciation	250	148
Amortisation	1,139	948
Share based payment expense	101	267
Finance income	(234)	(438)
Decrease/(increase) in trade and other receivables	959	(949)
Decrease in trade and other payables	(1,711)	(2,006)
Income tax paid	(778)	(244)
Net cash flows from operating activities	3,539	1,172
Cash flows from investing activities		
Payments to acquire property, plant and equipment	(614)	(255)
Payments to acquire intangible assets	(2,411)	(1,162)
Loan granted to related party	(1,133)	(500)
Purchase of subsidiary undertakings	(1,024)	-
Cash acquired with subsidiaries	96	-
Interest received	234	438
Net cash flows from investing activities	(4,852)	(1,479)
Cash flows from financing activities		
Net proceeds from share issue	-	101
Purchase of shares into treasury	(1,373)	-
Proceeds from exercise of options over shares held in EBT	-	75
Net cash flows from financing activities	(1,373)	176
Net decrease in cash and cash equivalents in the year	(2,686)	(131)
Cash and cash equivalents at beginning of year	9,120	9,251
Cash and cash equivalents at end of year	6,434	9,120

Notes to the consolidated preliminary financial statements for the year ended 31 August 2009

1. Basis of Preparation

The financial information set out herein does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The financial information for the year ended 31 August 2009 has been extracted from the statutory accounts of 2ergo Group plc for that year which, if adopted by the members at the Annual General Meeting, will be filed with the Registrar of Companies. The results for the year ended 31 August 2008 are extracted from the statutory accounts for that year which have been delivered to the Registrar of Companies. The auditors reported on those accounts; their report was unqualified and did not contain a statement under either section 237 (2) or section 237 (3) of the Companies Act 1985.

The preliminary financial information has been prepared in accordance with the accounting policies set out in the Group's statutory accounts for the year ended 31 August 2008.

2. Impairment of available for sale investment

An impairment charge of £3.2 million arose in the first half of the financial year, when 2ergo held a 19.2% interest in Broca plc which was accounted for as an available for sale investment. In accordance with the principles of IAS 39, the carrying value of the asset was required to be written down to the quoted share price of Broca plc, giving rise to the impairment charge of £3.2 million through the income statement for the 6 months to February 2009.

Subsequent to the half year, 2ergo completed the acquisition of the remaining share capital of Broca plc. The goodwill arising on the acquisition of the entire 100% interest in Broca plc is £6.8 million (including £3.2 million in relation to the initial 19.2% holding). This is supported by its value in use and is not considered to be impaired.

In terms of overall net asset values, the impairment charge arising in the first half of the year has been reversed in the second half, but IAS 39 requires that the reversal of the original charge is not through the income statement. The overall impact is that while the income statement includes an impairment of £3.2 million in respect of the previously held available for sale investment, the subsequent acquisition accounting is such that the impairment is reversed within the balance sheet and reinstated within goodwill.

3. Earnings per share

The calculation of basic earnings per share is based on profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in issue during the year. The calculation of diluted earnings per share is based on the basic earnings per share adjusted to allow for the assumed conversion of all dilutive options. In 2009, the weighted average number of shares for the purpose of calculating diluted earnings per share is the same as for the basic earnings per share calculation. This is because the outstanding share options would have the effect of reducing the loss per ordinary share and therefore would be anti-dilutive. In 2008, 644,149 options were not included in the calculation as they would have been anti-dilutive due to their exercise price being greater than the market price of an ordinary share.

	Earnings per share pence	Loss £000	2009 Weighted average number of ordinary shares	Earnings per share pence	Earnings £000	2008 Weighted average number of ordinary shares
Basic earnings per share	(0.60)	(184)	30,485,339	8.54	2,535	29,669,451
Dilutive effect of share options			-			980,077
Diluted earnings per share	(0.60)	(184)	30,485,339	8.27	2,535	30,649,528

An adjusted earnings per share, before the impairment of the investment in Broca, has been presented in addition to the earnings per share as defined in IAS 33, since in the opinion of the directors, this provides a more meaningful indicator for investors. The weighted average number of shares for adjusted basic earnings per share and adjusted diluted earnings per share is the same as for basic earnings per share and diluted earnings per share respectively. Adjusted earnings per share can be reconciled from the basic earnings per share as follows:

	Earnings per share pence	Earnings £000	2009 Weighted average number of ordinary shares	Earnings per share pence	Earnings £000	2008 Weighted average number of ordinary shares
Basic earnings per share	(0.60)	(184)	30,485,339	8.54	2,535	29,669,451
Impairment charge		3,194	-		-	-
Adjusted basic earnings per share	9.87	3,010	30,485,339	8.54	2,535	29,669,451
Dilutive effect of share options			-			980,077
Adjusted diluted earnings per share	9.87	3,010	30,485,339	8.27	2,535	30,649,528

4. Goodwill on acquisitions

Intangible assets includes £14.1 million of goodwill in respect of the acquisitions of Broca plc, Wapfly Technologies Pty Limited and Activemedia Technologies Limited made during the year, and arises as set out below. The value of goodwill together with the fair value of the assets and liabilities acquired may be adjusted for circumstances that are revealed within 12 months of the date of acquisition.

Broca acquisition

Until 7 April 2009 the Group held 19.2% of the ordinary share capital of Broca plc. On 8 April 2009, the Group acquired the balance of the entire issued share capital of Broca plc and its subsidiary undertakings, Broca Communications Limited and Sure on Sight Limited for consideration of the issue of 2,872,856 ordinary shares in 2ergo Group plc. The fair value of the shares issued was determined with reference to market price on the date of acquisition. The provisional impact of the acquisition on the Group's assets and liabilities is set out below:

	Book value £000	Adjustments £000	Provisional fair value £000
Intangible assets	2,671	(40)	2,631
Property, plant and equipment	41	-	41
Deferred tax asset	-	131	131
Trade and other receivables	58	146	204
Cash and cash equivalents	12	-	12
Trade and other payables	(2,006)	(64)	(2,070)
Net assets acquired	776	173	949
Goodwill			6,786
Total purchase consideration			7,735
made up as follows:			
reclassification from available for sale investment			810
reinstatement of cost of previously impaired available for sale investment (note 2)			3,194
satisfied by issue of ordinary shares			3,404
direct costs relating to the acquisition			327
			7,735

Wapfly acquisition

On 14 May 2009, the Group acquired the entire issued share capital of Wapfly Technologies Pty Limited (now renamed 2ergo Australia Pty Limited) for consideration of £172,000. The provisional impact of the acquisition on the Group's assets and liabilities is set out below:

	Book value £000	Adjustments £000	Provisional fair value £000
Intangible assets	-	31	31
Property, plant and equipment	7	-	7
Cash and cash equivalents	19	-	19
Trade and other payables	(56)	(9)	(65)
Net liabilities acquired	(30)	22	(8)
Goodwill			205
Total purchase consideration			197
made up as follows:			
cash			63
deferred consideration			109
direct costs relating to the acquisition			25
			197

Activemedia Technologies acquisition

On 24 July 2009, the Group acquired the entire issued share capital of Activemedia Technologies Limited and its Indian subsidiary undertaking Active Media Technologies Private Limited for initial cash consideration of £179,000 with further estimated consideration payable of £6,890,000. The provisional impact of the acquisition on the Group's assets and liabilities is set out below:

	Book value £000	Adjustments £000	Provisional fair value £000
Intangible assets	-	315	315
Property, plant and equipment	49	-	49
Trade and other receivables	177	-	177
Cash and cash equivalents	65	-	65
Trade and other payables	(31)	(88)	(119)
Net assets acquired	260	227	487
Goodwill			7,096
Total purchase consideration			7,583
made up as follows:			
cash			179
deferred contingent consideration*			6,890
direct costs relating to the acquisition			514
			7,583

* The deferred contingent consideration, which is payable in tranches, is discounted and calculated as 4 times Indian profit after tax and 2.8 times UK operating profit for the year to 31 August 2012 based on management projections and is dependent on the acquired business achieving agreed levels of financial performance and is subject to an overall cap related to Group performance. Consideration is payable between November 2009 and November 2013 and will be settled, at the discretion of the Group, by the issue of new ordinary shares in the Company or loan notes.

5. Report and Accounts

A copy of the Annual Report and Accounts will be sent to all shareholders with notice of the Annual General Meeting.