Tracsis plc

Annual Report & Accounts 2012

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Group Profile

Tracsis plc was founded in January 2004 to commercialise world class research and expertise developed in the field of transport scheduling and optimisation technologies. In the subsequent years Tracsis has grown rapidly to become a leading developer, supplier and consolidator of resource management, data capture and reporting technologies to the passenger transport industries. The Group works primarily in the field of passenger rail and bus within UK and overseas markets and is working towards expanding into other related fields such as rail freight and logistics.

The Group's products and services comprise three principal revenue streams: resource optimisation software; operational and performance planning consultancy including passenger demand analysis & surveys; and remote condition monitoring and data logging technology.

The Group has developed a range of products that assist in the development of optimised crew schedules for all types of on-board labour, primarily automated resource scheduling software for worldwide transport markets. Our software is recognised as the most advanced intelligent crew scheduling application available and is widely used by many large transport operators.

The Group's core product suite, developed in conjunction with applied research from the University of Leeds, is used to automate and optimise the process by which labour schedules and rosters are created, allowing for this activity to be done with greater speed and with a higher degree of accuracy and efficiency than existing methods.

Tracsis works with the majority of UK transport operators including Arriva, First Group, Govia, National Express, Stagecoach, Serco, NED Railways and Virgin. Tracsis also works with major transportation consultancy businesses and infrastructure providers such as Network Rail. Tracsis is led by a team of experienced commercial and technical professionals who are recognised as specialists in their field.

Board of Directors

Executive Directors

John McArthur (37)
Chief Executive Officer

John has been the Chief Executive Officer of Tracsis since the formation of the company in January 2004. Prior to this he worked as an investment manager with Techtran Group Limited which specialises in developing the commercial potential of intellectual property developed at the University of Leeds. John also worked for several years with Axiomlab Group plc, a technology venture capital company, having started his career with Arthur Andersen & Co. He holds a first class degree in Management Science from the University of Strathclyde in Glasgow.

Dr Raymond Kwan (55)
Chief Technical Officer

Raymond is the Chief Technical Officer of Tracsis. He has a PhD in computer science and has dedicated his career to researching complex scheduling problems within the transport industry. Prior to the incorporation of Tracsis, Raymond worked as a senior lecturer within the School of Computing at the University of Leeds, where he continues his research on a part time basis. Raymond has written a number of research papers published in journals covering driver scheduling.

Max Cawthra (34)
Chief Financial Officer

Max joined Tracsis in September 2010 as Financial Controller and was promoted to the Board in August 2011, as a replacement for Darren Bamforth who had acted as Finance Director on a part time basis. Max is a Chartered Accountant, having trained with Ernst & Young in Leeds. Prior to joining Tracsis, Max spent seven years at Persimmon plc in a variety of roles.

Non-Executive Directors

Rodney Jones (60)
Chairman

Rod has held a number of senior management roles in several different technology companies including European Vice President at Cincom Systems Inc., International Director of Western Data Systems Inc. and President of NASDAQ listed Ross Systems Inc. He is currently Chief Executive Officer of Proactis Holdings plc, an AIM quoted provider of spend control software.

Charles Winward (42)
Non-Executive Director

Charles is a Director at IP Group plc, a company which holds shares in Tracsis through IP Group's subsidiary Techtran Group Limited. Charles joined IP Group in April 2007 to manage investments in Top Technology Ventures Limited, IP Group plc's venture capital fund management subsidiary. Top Technology Ventures Limited manages the IP Venture Fund which has also invested in Tracsis. Previously Charles was Vice President of Technology Infrastructure at JP Morgan Chase & Co, where he worked in a variety of roles in London, New York and Brussels, and an investment manager at Axiomlab Group plc. Charles has an MBA from the University of California at Berkeley and a Bachelors Degree in mechanical engineering from the University of Bristol.

John Nelson (65)
Non-Executive Director

John is currently Chairman of First Class Partnerships, a strategic consultancy business which services the rail industry in the UK and internationally. Prior to this, John was the Chief Executive of Network South East and also headed up the Eastern Region of British Rail. John is a Non-Executive Director of Hull Trains. In addition, John was, for 9 years until 2007, a Non-Executive Director of Laing Rail Limited (who operate the Chiltern Railways franchise) and was also a Non-Executive Director of South Eastern Trains.

Chairman's and Chief Executive Officer's Report

Introduction

We are pleased to report on a further period of substantial growth for Tracsis plc, our fifth in a row since joining AIM and a year that has been a step change in the size, profitability and maturity of the Group.

Originally a niche software play, Tracsis has now developed a diverse range of complementary software, hardware and services, all of which are focused on delivering demonstrable performance improvements to our transport clients whether that be in reducing direct cost, improving service delivery and compliance, or increasing overall network performance.

The Group works with almost all of the leading passenger transport companies within the UK such as Arriva, First Group, Go-Ahead, National Express, Stagecoach, and Virgin. Given these credentials we now stand on the cusp of breaking into overseas markets with several key projects having been delivered in the past 12 months across Northern Europe and Australasia. Our successes have led to Tracsis now employing close to 50 full time staff and over 200 contractors working across three UK offices.

Moreover, looking at pure financial metrics, in less than five years we have grown revenues from less than £1m at IPO to £8.7m this year whilst generating £3.3m Adjusted EBITDA*. This is a business that has delivered during some spectacularly tough times none more so than in the current year.

* Earnings before finance income, tax, depreciation, amortisation, exceptional items and share-based payment charges

Business overview

Tracsis is a provider, developer and consolidator of resource optimisation software, consultancy services and technology for companies in the passenger transport industries. We operate mainly in the UK but are increasingly expanding our horizons to overseas markets.

Tracsis' market offering can be broadly categorised into three distinct revenue streams at present;

1. Application software: Tracsis has developed various products to optimise resources (including staff scheduling & rostering, and rolling stock scheduling), capture data, manage the collated information and report and communicate performance.
2. Professional services: Tracsis offers operational and performance planning consultancy and modelling / simulation along with passenger demand analysis & surveying; and
3. Condition monitoring and data logging equipment that includes embedded software for the management and maintenance of infrastructure.

These products and services have a common theme in assisting transport operators run a more efficient and productive service. This is achieved through the optimisation of resource allocation, both people and vehicles, coupled with tools that assist with strategic and operational planning issues and decision making. Given the increasing importance of passenger transport markets within the UK and abroad, the Directors believe these to be growth markets and that there will be sustained demand for the Group's products and services in years to come.

In June of 2011, we acquired MPEC Technology Limited (MPEC), our fourth acquisition to date. The 2010/11 results only included two months of trading for MPEC, but the acquisition was part of the Group for a full year in 2011/12, and the contribution to the Group has been very significant.

Financial summary

The Group achieved revenue of £8.7m for the year, which represents an increase of 112% on our 2011 revenue of £4.1m. This revenue growth was delivered by a combination of both organic and growth through acquisition. Excluding the MPEC acquisition, revenues increased 39% from £3.0m to £4.2m. Full year revenues for MPEC increased 318% from £1.1m to £4.5m, reflecting the timing of the acquisition and also growth.

Adjusted EBITDA* of £3.3m increased 164% from £1.2m. We were also pleased to report a profit before tax in excess of £3m. Given the continued economic conditions and challenging environment, the Directors believe that this is a very strong performance and are naturally delighted with the way the Group has performed.

Administrative costs excluding intangible asset amortisation and exceptional items increased from £2.4m to £3.6m. This increase reflects a full year of MPEC, and also further investment in the overhead base in order to provide a sustainable platform for further growth. After taking into account intangible asset amortisation and exceptional acquisition costs, total administrative costs amounted to £3.8m (2011: £2.5m).

At 31 July 2012, the Group had cash balances of £7.6m (2011: £4.7m) and remains debt free. The Group's cash position was strengthened during the year due to proactive working capital management and a strong conversion of operating profit to cash. The deferred consideration in respect of the MPEC acquisition was settled during the year at the full amount of £1.0m. The Sale and Purchase Agreement (SPA) allowed for this deferred consideration to be earned over a period of two years, however the financial targets set were earned in one year and so the full deferred consideration was paid early.

Chairman's and Chief Executive Officer's Report continued

Trading Progress and Prospects

Sales of the Group's core software offerings remained buoyant throughout the past year and the Group maintained all on-going software licences whilst winning several new customers as part of extensive rail refranchising work that took place. Some of these new contracts were long term agreements spreading over a number of years and this has boosted the Group's level of recurring software revenue under contact.

The past year also saw the first sales of TRACS-RS, a new software product which is designed to aid with the process of rolling stock vehicle planning. Adoption of RS has been good and although this product is currently in its infancy, we believe there is significant potential to up-sell this to the majority of our existing rail clients.

Furthermore, the Group's COMPASS software product completed a major system delivery in Scandinavia which had commenced in the previous financial year, and further sales in Scandinavia are being targeted in the future.

The Group's consultancy services traded ahead of expectation mainly due to the franchise bid work that took place in the year. The Group was involved in all of the bids, and worked with the various bidders to varying extent. The Group was heavily involved in supporting bidders for the West Coast, Great Western and Essex Thameside. The current timetable suggests that the vast majority of current franchises will be up for tender over the next few years, which could potentially lead to significant levels of demand for the Group's consultancy services offering, though the findings of the independent reviews arising from the West Coast bid may potentially have an impact on the nature of the process and timing of future franchise bid work. Within our overall consultancy offering, demand for our passenger counting and demand analytics service remained very high, which arose due to a combination of excellent client management, and also further business development in this area. Demand for this service was beyond expectations in the year.

The Group's condition monitoring and data logging offering enjoyed a very busy year. The MPEC business that supplies these products is mid-way through a framework agreement involving the supply of products in large quantities to a major infrastructure customer. During the year, as was announced, a major new order was won with a value of some £2.9m.

This order was partly fulfilled in the 2011/12 financial year, with the balance to be delivered in 2012/13. The Directors believe that the procurement project that these products are a part of has further potential and are confident of further orders in the coming year although as ever predicting the timing of sales in this area can be challenging. MPEC was also successful in winning a technology pilot in Scandinavia where condition monitoring devices are being tested on rolling stock vehicles. Should this pilot prove successful there is a strong possibility of Tracsis entering this new market where it is already well placed to exploit given its credentials and working relationships with the majority of UK train operating companies.

People

During October the Board of Directors took steps to promote two members of staff to join our Management Board. We are pleased to announce that Steve Brown now holds the position of Business Development Director and Andy Whawell is now formally appointed as Director of Infrastructure Services. Both are non-Main Board appointments.

Steve has worked with Tracsis since joining via the acquisition of RWA Rail in 2008. He has played an instrumental part in the Group's recent successes and is an experienced rail professional having originally started his career with AEA Technology (now DeltaRail).

Andy Whawell was originally Operations Director of MPEC Technology at the time of its acquisition by Tracsis in May 2011. Since then he has worked as de facto Managing Director and the success of our condition monitoring division has been largely down to Andy's tutelage. Prior to joining MPEC, Andy Worked for Balfour Beatty and Serco.

Both Steve and Andy have been instrumental to the Group's recent successes and will continue to play pivotal roles working across our business to ensure that future growth plans are delivered.

Earlier in the year Tracsis also took steps to ensure that it is well placed to recruit, motivate and retain the very best people. Building on an EMI (Enterprise Management Scheme) which is already in place, the Group took steps to formalise a Long Term Incentive Plan (LTIP) which all full time staff and Directors are eligible to participate in.

This scheme provides individuals with a simple decision to make at year end where both divisional and Group financial targets are met – opt for a pre-defined cash bonus or choose enhanced company stock options in lieu of any payment. The enhanced options vest over a period of three years and are designed to reward staff both for their efforts and for choosing to align their own fortunes with that of the Company going forward. At the time of writing this I am pleased to say the vast majority of staff opted for the LTIP which is a great endorsement for the company and what it is trying to achieve.

Chairman's and Chief Executive Officer's Report continued

Dividends

During the year, the Board also took the decision to adopt a progressive dividend policy which started with an interim dividend of 0.2p per share being paid. This was the Group's first dividend as a public company and reflects the Board's confidence in the on-going success and growth plans of the Group.

The Directors propose a final dividend of 0.35p per share, subject to shareholder approval. The overall level of dividends is well covered by the Group's profitability and cash position, supporting the Group's primary focus on growth via acquisition and development of new products and services. The Directors are confident of maintaining a progressive policy going forwards providing the business continues to trade in line with expectation.

The dividend will be payable on 1 February 2013 to shareholders on the Register at 18 January 2013.

Acquisitions

The Group did not make any new acquisitions in the year although several dozen opportunities were appraised. None of the businesses reviewed met with the Group's strict investment criteria. For the benefit of our stakeholders, the Tracsis website will shortly contain a new section dedicated to our acquisition activities and this will include details of our evaluation process and the essential elements we look for in candidate businesses.

Looking ahead, the Group will continue to evaluate new opportunities on a regular basis and has a good pipeline of prospects. Growth by acquisition remains a key part of the overall growth strategy for Tracsis and the Directors remain confident of being able to announce further transactions in the fullness of time.

Overseas growth

During FY'11/12 only a small portion, approximately 3%, of the Group's revenue was generated overseas. This was typical of our trading activities to date given the healthy state of the UK market and the fact that many leading transport organisations are headquartered here.

That said, in the past year we carried out several significant consultancy and software engagements abroad and these experiences have proved there to be readily accessible growth opportunities overseas. Looking ahead, a key strategic objective of the Group is to invest time and effort in winning business outside of the UK and show casing our products to a wider international audience. In September, Tracsis exhibited at Innotrans 2012, the largest rail trade show in the world which took place in Berlin.

Summary and Outlook

Tracsis has performed well in the past year, as illustrated by significantly increased levels of revenue, profit, and a resulting strong cash position. The Directors are confident of achieving further growth in the future, and our underlying organic growth should remain on a consistent trajectory given the robust nature of the UK rail industry. The industry is undergoing widespread changes which provide new opportunities for the Group: This includes the alignment of Network Rail with train operators and the general devolution from a centralised structure to planning on a route by route basis plus the large amount of refranchising work which will be undertaken in coming years. Whilst organic growth should remain buoyant, the largest challenges to the business remain in finding new investment opportunities, the timing of which are always difficult to predict.

We believe the Group remains well positioned to continue its objective of becoming a leading provider of software, consultancy services and monitoring equipment to the transportation markets both within the UK and further afield. The coming year should see new client wins, new product initiatives, and Tracsis entering new overseas markets – all of which should be achievable given our credentials and existing client relationships references. As always, our thanks go out to customers, shareholders and, most of all, our employees who continue to support us as we move forward.

Rod Jones, Chairman

John McArthur, Chief Executive Officer

30 October 2012

Chief Financial Officer's Report

Results for the year

The Group has had another successful year with revenues increasing to £8.7m from £4.1m. This performance reflects continued organic growth, and also a full year of MPEC Technology Limited ("MPEC") which was acquired on 1 June 2011, and so only contributed two months of sales in the previous financial year.

Adjusted EBITDA (earnings before finance income, tax, depreciation, amortisation, exceptional items and share-based payment charges) was £3.3m (2011: £1.2m). The statutory profit before tax was £3.0m (2011: £1.1m). This increased level of profitability represents a combination of both organic growth and the full year impact and contribution of MPEC.

Acquisitions

The Group did not make any new acquisitions in the year. Several potential opportunities were appraised, but none met all of the Group's strict criteria and so the Group did not proceed.

The Group settled the deferred consideration due in respect of the MPEC acquisition at the full amount payable of £1.0m.

Cash flow

The Group ended the year with cash balances of £7.6m. This is a significant increase on the 2011 position of £4.7m, even after paying the £1.0m deferred consideration. The additional cash arises mainly from strong conversion of profits to cash via proactive working capital management. The Group also benefited from proceeds from the exercise of warrants and share options, which generated £0.4m in cash. The group paid its maiden dividend of 0.2p per share during the year, resulting in a cash outflow of £48k which is comfortably covered by profits and cash generation.

Treasury management

The Group continues to manage its cash resources to maximise interest income whilst at the same time minimising any risk to these funds. Due to the low interest rate environment, the Group has struggled to achieve a good return on its cash deposits, but has sought to take advantage of the best deals on the market where possible, with the funds raised as part of the placing being invested in short term deposits at attractive rates.

Earnings per share

Basic earnings per share was 9.96p (2011: 4.49p). Diluted earnings per share (which takes into account the dilutive effect of share options not yet exercised was 9.83p (2011: 4.48p).

Dividends

During the year, the Group committed to adopting a progressive dividend policy subject to future profits and cash flows. This led to the payment of 0.2p per share at the interim stage, being the Group's maiden dividend as a public company. The Directors recommend a final dividend of 0.35p per share, which will be subject to shareholder approval at the forthcoming Annual General Meeting.

Chief Financial Officer's Report continued

Key risks

The board carefully considers the risks facing the Group and endeavour to minimise the impact of those risks. The key risks are as follows:

- **History of intellectual property and associated risk factors:** Some of the Group's software is based on software which was developed at the University of Leeds along with other research projects. Whilst the University has assigned all its rights in respect of the this piece of software to Tracsis, there could be claims over certain copyright aspects of the software or other disputes with third parties regarding the intellectual property inherent within the Group's software. In common with other software products, the Group's software could be superseded by software developed by third parties and the possibility of disputes over intellectual property with third parties cannot be discounted. A significant part of the Group's future also depends upon its intellectual property. If intellectual property is inadequately protected or challenged, the Group's future success could be adversely affected.

- **Attraction and retention of key employees:** The Group depends on the Directors and certain other key employees across its various subsidiaries, and whilst it has entered into contractual arrangements with these individuals with the aim of securing the services of each of them, retention of these specialist services cannot be guaranteed. Equally, the ability to attract new employees and in particular senior executives for the business with the appropriate specialist expertise and skills cannot be guaranteed

- **Market acceptances and customer contracts:** The Group currently has contracts in place with a number of Train Operating Companies and it cannot be guaranteed these contracts will continue or that new contracts will be won by the Group. As with many large corporations, they are unlikely to vary their standard terms and conditions. The Group, may, in such circumstances, enter into contracts on less favourable terms than it would normally be able to negotiate.

- **Pilot deployment:** Whilst the Directors anticipate that pilot programmes will be converted into full licences upon completion of the programme there can be no guarantee that all or any of these pilot programmes will successfully convert.

- **Competition:** Although the Directors believe there to be very little direct competition within the market for certain of its products, there may be products and competitors that they are currently unaware of which could have a detrimental effect on the Group's trading performance. Certain of the Group's services and other products are sold in a much more competitive environment. The Group therefore has a balanced exposure to competition, with some products and services facing little competition, but other revenue streams have much more competition.

- **Industry ownership, structure and franchise bidding process:** The industry in which the Group predominantly operates is currently separated into private and national ownership. The private elements of this industry could be renationalised which may have an adverse effect on the Group. Any other changes to the structure of the industry may also present a risk, but also an opportunity as buying patterns may change. Furthermore, if there are any delays to the previously published franchise bidding proposed timetable or process, this will potentially have an adverse impact on the Group. The independent reviews arising from the West Coast franchise bid may impact on future revenues and profits.

- **Loss of key customers:** One of the Group's subsidiaries has a significant contract / Framework Agreement with a major customer. Loss of this contract would result in significant amounts of lost revenue for this particular subsidiary and also the Group.

- **Product obsolescence**: The Group has a variety of Technology based products, and invests in Research & Development to ensure that they constantly evolve and are kept up to date. Failure to keep up with technical developments may mean that the Group's products run the risk of being overtaken technically should other companies develop products at a faster pace.

Key performance indicators (KPIs)

The Group's main KPIs are:

- Monthly review of sales revenue pipeline, sales under negotiation and renewals of existing contracts and licences;
- Monthly review of operating margins and profitability;
- Monthly review of actual results against budget and the prior year;
- Monitoring of cash balances and working capital requirements.

Max Cawthra
Chief Financial Officer

30 October 2012

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 July 2012.

Principal activity

The principal activity of the group is the development, supply and consolidation of resource management, data capture and reporting technologies and consultancy to companies in the passenger transport industries. The Group has contracts in place with major operators within the rail and bus industries, and infrastructure providers.

Business review and future developments

A review of the Group's operations and future developments is covered in the Chairman's and Chief Executive Officer's Report and the Chief Financial Officer's Report. This includes a summary of the Group's strategy and the markets in which it operates. The Chief Financial Officer's Report considers the key risks facing the Group and the key performance indicators which are used to monitor the business.

Financial results

Details of the Group's financial results are set out in the Consolidated Statement of Comprehensive Income, other primary statements and in the Notes to the Consolidated Financial Statements on pages 17 to 43.

Dividends

The Directors intend to adopt a progressive dividend policy, subject to growth, profitability and cash position in the future. An interim dividend of 0.2p per share was paid in March 2012. The Directors propose a final dividend of 0.35p per share, subject to shareholder approval at the forthcoming Annual General Meeting.

Directors

The directors who serve on the Board and on Board Committees during the year are set out on page 2.

Under the Articles of Association of the Company, one third of the directors are subject to retirement by rotation at the forthcoming Annual General Meeting, notice of which accompanies this Report and Accounts. Accordingly Mr CS Winward and Mr J Nelson retire by rotation and, being eligible, offer themselves for re-election. In relation to the re-elections of each of the directors, the Board is satisfied that each of these directors continues to be effective and to demonstrate commitment to the Company.

Information in respect of directors' remuneration is given in the Directors' Remuneration Report on pages 10 to 12.

Directors' shareholdings

Directors' beneficial interests in the shares of the Company, including family interests, at 31 July 2011 and 2012 were as follows:

	31 July 2012		**31 July 2011**	
	Number of shares	% of issued share capital	Number of shares	% of issued share capital
Rod Jones	23,000	0.09%	23,000	0.10%
John McArthur	957,475	3.85%	953,697	3.97%
Raymond Kwan[1]	2,183,850	8.80%	2,875,850	11.96%
Max Cawthra	4,000	0.02%	-	-
John Nelson	15,503	0.06%	-	-
Charles Winward[2]	56,500	0.23%	796,650	3.31%

1 – This represents the aggregate of 1,899,850 ordinary shares registered in the name of Dr Raymond Kwan and 284,000 ordinary shares registered in the name of his wife Dr Ann Kwan (2011: 2,649,850 and 226,000).

2 – In 2011, the figure represents the ordinary shares registered in the name of IP2IPO Nominees Limited for which Charles Winward had a beneficial interest. During the year, 56,500 shares were transferred out of IP2IPO Nominees Limited into the name of Charles Winward.

On 13 August 2012, Dr Raymond Kwan disposed of 200,000 shares, and on 17 August 2012, Dr Raymond Kwan disposed of 200,000 shares.

On 29 August 2012, John Nelson purchased 15,287 ordinary shares.

None of the Directors had any interests in the share capital of subsidiaries. Further details of share options held by the directors are set out in the Directors' Remuneration Report.

Substantial shareholdings

At 30 October 2012, being the latest practicable date prior to the publication of this document, the Company has been advised of the following shareholdings of 3% or more in the issued share capital of Tracsis plc:

	Number of shares	**% of issued shares**
Techtran Group Limited, IP Venture Fund[1]	4,944,931	19.9%
The University of Leeds	3,090,000	12.4%
Dr Raymond Kwan	1,783,850	7.2%
Unicorn Asset Management	1,874,332	7.6%
Ennismore Fund Management	1,600,000	6.4%
Downing LLP	1,510,712	6.1%
Hargreave Hale Limited	1,262,500	5.1%
John McArthur	957,475	3.9%
Parkwalk Advisors	777,778	3.1%

1 – Techtran Group Limited is a wholly owned subsidiaries of IP Group plc. IP Group plc is a limited partner in IP Venture Fund, which is managed by an IP Group plc company.

Directors' Report continued

Payment of suppliers

It is the Group's policy to pay suppliers in accordance with the terms and conditions agreed in advance, providing all trading terms and conditions have been met. All payments are made in the ordinary course of business and the Group expects to pay all supplier debts as they become due.

Trade payable days for the Group at 31 July 2012 were 23 days (2011: 20 days).

Research and development

During the year the Group incurred £403,000 (2011: £191,000) of expenditure on research activity, which has been charged to the Income Statement.

Financial instruments

Details of the Group's exposure to financial risks are set out in Note 22 to the financial statements.

Employment policy

It is the policy of the Group to operate a fair employment policy. No employee or job applicant is less favourably treated than another on the grounds of their sex, sexual orientation, age, marital status, religion, race, nationality, ethnic or national origin, colour or disability and all appointments and promotions are determined solely on merit. The Directors encourage employees to be aware of all issues affecting the Group and place considerable emphasis on employees sharing in its success through its employee share option scheme.

Environment

The Group adheres to all environmental regulations and has, where possible, utilised environmental-sustaining policies such as recycling and waste reduction.

Significant Contracts

One of the Group's subsidiaries, MPEC Technology Limited, has a significant Framework Agreement with a major railway infrastructure provider, from which it derives a significant amount of business.

Charitable donations

The Group made charitable donations to various charities amounting to £6,140 during the year (2011: £7,160). No political donations were made.

Auditor

KPMG Audit Plc will be proposed for re-appointment by the shareholders at the forthcoming Annual General Meeting.

Provision of information to auditor

All of the current Directors have taken all steps that they ought to have taken to make themselves aware of any information needed by the Company's auditor for the purposes of their audit and to establish that the auditor is aware of that information. The Directors are not aware of any relevant audit information of which the auditor is unaware.

By order of the Board

Max Cawthra
Company Secretary

30 October 2012

Directors' Remuneration Report

Unaudited information:

Tracsis plc, as an AIM company, is not required to present a Directors Remuneration Report in accordance with the Combined Code. As part of the Company's commitment to Corporate Governance, we present a voluntary report below.

Remuneration committee

The Remuneration Committee is described in the Report on Corporate Governance. The remuneration for each Executive Director is determined by the Remuneration Committee, which comprises Rodney Jones and the Non-Executive Directors. None of the committee members has any personal financial interest, other than as shareholders, in the matters to be decided.

Service contracts

It is the Group's policy to enter into service contracts or letters of appointment with all Directors. Specific terms are:

	Date of contract	Commencement date	Unexpired term	Notice period
Executive Directors				
John McArthur	21.11.07	01.01.04	Indefinite	6 months
Dr Raymond Kwan	21.11.07	01.01.04	Indefinite	3 months
Max Cawthra	20.09.10	20.09.10	Indefinite	3 months
Non-Executive Directors				
Rodney Jones	21.11.07	21.11.07	Indefinite	3 months
John Nelson	21.11.07	21.11.07	Indefinite	3 months
Charles Winward	21.11.07	21.11.07	Indefinite	3 months

None of the service contracts or letters of appointment provide for any termination payments.

Remuneration policy

The remuneration packages for Directors and senior management have been structured so as to fairly compensate them for their contribution to the Group and to encourage them to remain within the Group. The basic components of these packages include:

Basic salary and bonus arrangements

Each Director receives an annual salary or Directors' fee for his/her services. These salaries are reviewed annually by the Remuneration Committee and take into account the financial performance of the Group and market conditions. The Group operates a discretionary bonus scheme. The Remuneration Committee is entitled to decide whether any bonuses are payable, and if so, what amounts should be granted to Executive Directors. Directors, in line with all members of staff are entitled to exchange an element of any cash bonus awarded for discounted share options under the Group's Long Term Incentive Plan.

External appointments

The committee recognises that its directors may be invited to become executive or non-executive directors of other companies or to become involved in charitable or public service organisations. As the Committee believes that this can broaden the knowledge and experience of the directors to the benefit of the Group, it is the Group's policy to approve such appointments provided that there is no conflict of interest and the commitment is not excessive. The director concerned can retain the fees relating to any such appointment.

Pensions and benefits in kind

All staff, Executive Directors and senior management are entitled to participate in the stakeholder pension plan established by the Group. Benefits are provided to certain Executive Directors, including private health cover. The Group does not provide any company cars to any of its Directors or employees. The Group makes employer pension contributions to the pension schemes of J McArthur, M Cawthra and R Kwan at a rate of 5% of basic salary, in line with the level of contributions for other members of staff.

Directors' Remuneration Report continued

Audited information:

Directors' remuneration

Directors' remuneration for the year ended 31 July 2012 is set out below

	Basic salary £000	Bonus £000	Benefits in kind £000	Total 2012 £000	Total 2011 £000
Executive Directors					
John McArthur [5]	115	50[5]	1	**166[5]**	161
Dr Raymond Kwan	37	4	1	**42**	45
Max Cawthra [4]	70	15	-	**85**	-
	222	69	2	**293**	206
Non-Executive Directors					
Rodney Jones	17	-	-	**17**	16
John Nelson	14	-	-	**14**	12
Charles Winward	14	-	-	**14**	12
	45	-	-	**45**	40

Directors' interests in shares options in the Executive Share Option Schemes

	At 1 August 2011	Granted	Exercised	At 31 July 2012	Exercise price pence	Date from Which Exercisable	Expiry date
Executive Directors							
John McArthur	140,000	-	-	140,000	52p	See note 2 below	28 Jan 2019
Dr Raymond Kwan[1]	75,000	-	(75,000)	-	52p	See note 2 below	28 Jan 2019
Max Cawthra	75,000	150,000	-	225,000	50p/89p	See note 3 below	12 Jan 2021 20 Jun 2022
Non-Executive Directors							
Rodney Jones	262,551	-	-	262,551	40p	21 Nov 2008	21 Nov 2017
John Nelson	175,034	-	-	175,034	40p	21 Nov 2008	21 Nov 2017
Charles Winward	87,517	-	-	87,517	40p	21 Nov 2008	21 Nov 2017

1 – Dr Raymond Kwan's share options were registered in the name of his wife, Dr Ann Kwan who exercised them during the year and subsequently sold a proportion.

2 – Exercisable in batches in 6 monthly intervals commencing 6 months from the date of grant (28 January 2009). All options will be fully exercisable 36 months after the date of grant.

3 – Exercisable in batches in 6 monthly intervals commencing 6 months from the date of grant (12 January 2011 and 20 June 2012). All options will be fully exercisable 36 months after the date of grant.

4 – In August 2012, Max Cawthra exchanged an element of his cash bonus for 10,162 EMI share options as part of the Group's Long Term Incentive Plan which is available to all staff and offers them the opportunity to forgo cash bonus in exchange for share options.

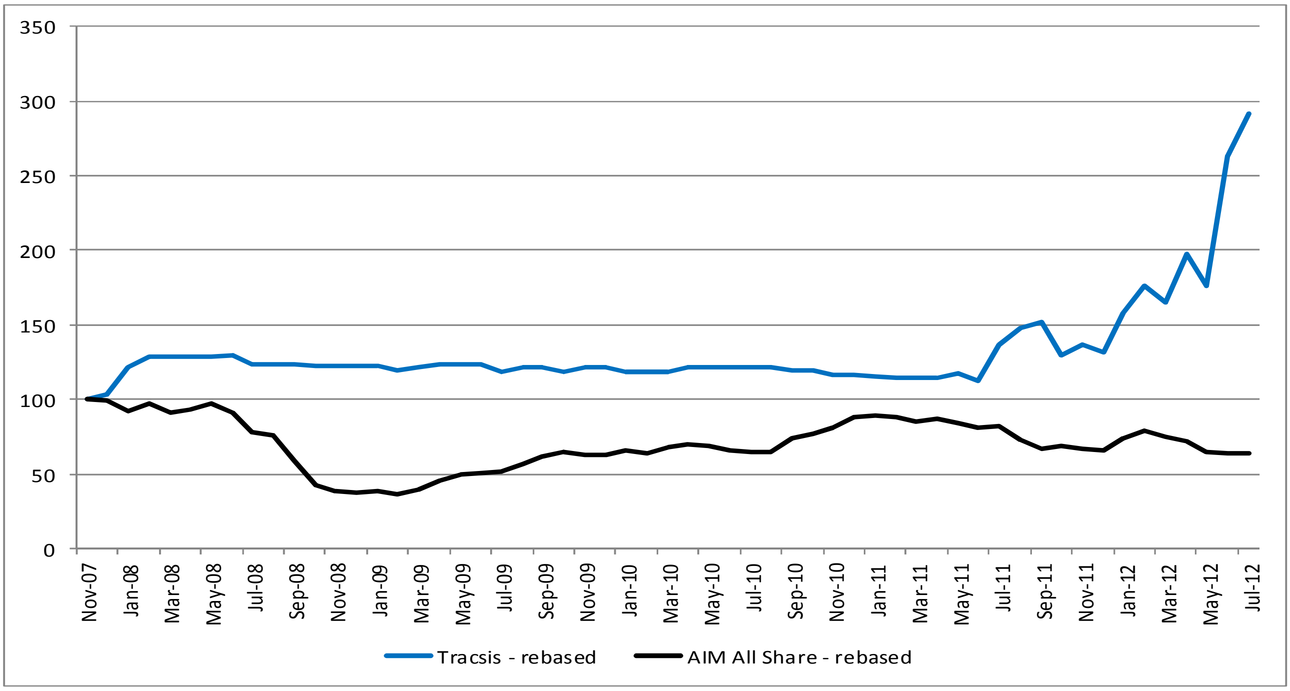
5 – John McArthur was awarded a cash bonus of up to £50,000 by the Remuneration Committee. John can elect to exchange this full amount for discounted EMI share options as part of the Group's Long Term Incentive Plan which is available to all staff and offers them the opportunity to forgo cash bonus in exchange for share options, although he has currently not chosen to do so.

The aggregate amount of gains made by directors and their spouses on the exercise of share options was £10,030 (2011: £nil). No directors exercised options during the previous period. No directors received or were due to receive any shares under long term incentive schemes other than under the share options schemes set out above.

Directors' Remuneration Report continued

Performance graph

The following graph shows the Company's share price (rebased) compared with the performance of the FTSE AIM all-share index (rebased) for the period from admission to AIM to 31 July 2012.



The committee has selected the above indices because they are most relevant for a company of Tracsis's size and sector.

On behalf of the Board

Rod Jones
Chair of the Remuneration Committee
30 October 2012

Corporate Governance

Tracsis plc was listed on AIM on 27 November 2007. The Group recognises the importance of, and is committed to, high standards of corporate governance. Tracsis plc, as an AIM Company, is not required to comply with the June 2010 UK Corporate Governance Code, although it has adopted the principles as set out below.

The Board

There are currently six Board members, comprising three Executive Directors and three Non-Executive Directors. The role of the Non-Executive Directors is to bring independent judgement to Board deliberations and decisions. The Chairman of the Board is Rodney Jones who oversees Board meetings and fields all concerns regarding the executive management of the Group and the performance of the Executive Directors. Mr Jones is responsible for the Group's corporate governance. A biography of each Director appears on page 2. The Directors each have diverse backgrounds and a wide range of experience is available to the Group. The Board meets on a monthly basis to review the Group's performance and to review and determine strategies for future growth. The Board has delegated specific responsibilities to its committees as set out below.

Each of the Directors is subject to either an executive services agreement or a letter of appointment as set out on page 10. Tracsis plc's Articles of Association require directors to retire from office and submit themselves for re-election on a one third rotation at each Annual General Meeting. Mr CS Winward and Mr R Jones will be retiring at the Annual General Meeting and submitting themselves for re-election.

Board meetings and attendance

Board meetings were held on 12 occasions during the year. The table below shows attendance at the meetings whether in person or by telephone. The Company Secretary records attendance at all board meetings including where attendance is by telephone conference.

	Board Meetings (total 12)
Rodney Jones	10
John McArthur	11
Max Cawthra	12
Dr Raymond Kwan	12
John Nelson	9
Charles Winward	11

Meeting attendance (continued)

	Nomination Committee Meetings (total 2)	Remuneration Committee Meetings (total 2)	Audit Committee Meetings (total 2)
Rodney Jones	2	2	2
John McArthur	-	-	-
Max Cawthra	-	-	-
Dr Raymond Kwan	-	-	-
John Nelson	2	2	2
Charles Winward	2	2	2

Board committees

Nomination Committee

The Nomination Committee comprises Rodney Jones as Chairman and the Non-Executive Directors. The committee's primary responsibilities are to make recommendations to the Directors on all new appointments of Directors and senior management, interviewing nominees, to take up references and to consider related matters.

Remuneration Committee

The Remuneration Committee comprises Rodney Jones as Chairman and the Non-Executive Directors. The committee's primary responsibilities are to review the performance of the Executive Directors and to determine the terms and conditions of service of senior management and any Executive Director appointed to the Board (including the remuneration of and grant of options to any such person under any share scheme adopted by the Group).

Audit Committee

The Audit Committee similarly comprises Rodney Jones as Chairman and the Non-Executive Directors. The audit committee's primary responsibilities are to monitor the financial affairs of the Group, to ensure that the financial performance of the Group is properly measured and reported on, and to review reports from the Group's auditors relating to the accounting and internal controls.

Non audit services

In accordance with its policy on non audit services provided by the Group's auditors, the Audit Committee reviews and approves the award of any such work. The Audit Committee refers to the Board for approval of any work comprising non audit services where the fees for such work represent more than 25% of the annual audit fee.

Corporate Governance continued

Auditor independence and conflicts of interest

The Audit Committee continues to evaluate the independence and objectivity of the external auditors and takes into consideration all United Kingdom professional and regulatory requirements. Consideration is given to all relationships between the Group and the audit firm (including in respect of the provision of non audit services). The Audit Committee considers whether, taken as a whole, and having regard to the views, as appropriate, of the external auditors and management, those relationships appear to impair the auditors' judgement or independence. The Audit Committee feels they do not.

Internal audit

The Audit Committee agrees that there should be no internal audit function of the Group at this time considering the size of the Group and the close involvement of senior management over the Group's accounting systems. However, the Committee will keep this matter under review in the event that circumstances warrant an internal function for the Group in the future.

Control procedures

The Board approves the annual budget each year. This process allows the Board to identify key performance targets and risks expected during the upcoming year. The Board also considers the agreed budget when reviewing trading updates and considering expenditures throughout the year. Progress against budget is monitored via monthly reporting of actual financial performance against budget and prior year actual results.

The Group has clear authority limits deriving from the list of matters reserved for decision by the Board including capital expenditure approval procedures.

Relations with shareholders

The Board recognises and understands that it has a fiduciary responsibility to the shareholders. The Chairman's Statement and Chief Executive's Statement include detailed analysis of the Group's performance and future expectations. The Group's website (www.tracsis.com) allows shareholders access to information, including contact details and the current share price. The Chief Executive is responsible for on-going dialogue and relationships with shareholders.

The Annual General Meeting will be a platform for the Board to communicate with shareholders and the Board welcomes the attendance and participation of all shareholders.

Going concern

The Directors have a reasonable expectation that the Group has adequate resources to continue for the foreseeable future in operational existence and have therefore adopted the going concern basis in preparing the accounts.

Independence of Non-Executive Directors

The Directors consider all Non-Executive Directors to be independent. Mr CS Winward is a Director of IP Group plc, one of the Group's major shareholders. Mr Winward declares any potential conflicts of interest, if any, at each Board Meeting, and ensures that he is removed from the decision making process if relevant. The Board benefits from Mr Winward's vast experience and wise counsel, and as such, considers him to be a suitable non-executive Director. The Board considers Mr RD Jones and Mr JG Nelson to be independent.

Board review process

The Board does not formally appraise its performance each year, but considers the performance of Board members on an informal basis, to ensure that each director has the skills and experience required to perform their duties. The Board is satisfied that all Directors have the appropriate level of skills and experience.

Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period.

In preparing each of the Group and Parent Company 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;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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

Independent Auditor's Report to the Members of Tracsis plc

We have audited the financial statements of Tracsis plc for the year ended 31 July 2012 set out on pages 17 to 48. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 15, 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 of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2012 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 EU;

- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

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

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

DJ Hutchinson (Senior Statutory Auditor)
for and on behalf of KPMG Audit PLC, Statutory Auditor
Chartered Accountants

1 The Embankment
Neville Street
Leeds
LS1 4DW

30 October 2012

Consolidated Statement of Comprehensive Income

for the year ended 31 July 2012

Continuing Operations

	Notes	2012 £000	2011 £000
Revenue	6	**8,668**	4,083
Cost of sales		**(1,880)**	(472)
Gross profit		**6,788**	3,611
Administrative costs		**(3,835)**	(2,513)
Adjusted EBITDA*		**3,279**	1,242
Amortisation of intangible assets	14	**(222)**	(115)
Depreciation	13	**(49)**	(20)
Exceptional item: Contingent consideration surplus		**-**	45
Exceptional item: Acquisition costs		**-**	(37)
Share-based payment charges	8	**(55)**	(17)
Operating profit	9	**2,953**	1,098
Finance income	10	**61**	17
Profit before tax		**3,014**	1,115
Taxation	11	**(598)**	(208)
Profit after tax		**2,416**	907
Other comprehensive income:			
Other comprehensive income net of tax		**-**	-
Total recognised income for the year		**2,416**	907

	Notes	2012	2011
Earnings per ordinary share			
Basic	12	**9.96p**	4.49p
Diluted	12	**9.83p**	4.48p

* Earnings before finance income, tax, depreciation, amortisation, exceptional items and share-based payment charges.

Consolidated Balance Sheet

as at 31 July 2012

Company number: 05019106

	Note	2012 £000	2011 £000
Non-current assets			
Property, plant and equipment	13	**463**	474
Intangible assets	14	**4,246**	4,470
		4,709	4,944
Current assets			
Inventories	15	**236**	134
Trade and other receivables	16	**1,282**	1,982
Cash and cash equivalents		**7,568**	4,690
		9,086	6,806
Total assets		**13,795**	11,750
Non-current liabilities			
Deferred tax liabilities	18	**702**	817
		702	817
Current liabilities			
Trade and other payables	17	**1,928**	2,737
Current tax liabilities		**732**	540
		2,660	3,277
Total liabilities		**3,362**	4,094
Net assets		**10,433**	7,656
Equity attributable to equity holders of the company			
Called up share capital	19	**99**	96
Share premium reserve	20	**4,113**	3,762
Merger reserve	20	**935**	935
Share based payments reserve	20	**194**	139
Retained earnings	20	**5,092**	2,724
Total equity		**10,433**	7,656

The financial statements on pages 17 to 43 were approved and authorised for issue by the Board of Directors on 30 October 2012 and were signed on its behalf by:

John McArthur – Chief Executive Officer

Max Cawthra – Chief Financial Officer

Consolidated Statement of Changes in Equity

	Share Capital £000	Share Premium Reserve £000	Merger Reserve £000	Share-based Payments Reserve £000	Retained Earnings £000	Total £000
At 1 August 2010	78	1,839	836	122	1,817	4,692
Profit for the year	-	-	-	-	907	907
Total comprehensive income	-	-	-	-	907	907
Transactions with owners:						
Share based payment charges	-	-	-	17	-	17
Shares issued as consideration for business combinations	1	-	99	-	-	100
Share Placing	17	1,933	-	-	-	1,950
Expenses of share issues	-	(10)	-	-	-	(10)
At 31 July 2011	**96**	**3,762**	**935**	**139**	**2,724**	**7,656**
At 1 August 2011	96	3,762	935	139	2,724	7,656
Profit for the year	-	-	-	-	2,416	2,416
Total comprehensive income	-	-	-	-	2,416	2,416
Transactions with owners:						
Dividends	-	-	-	-	(48)	(48)
Share based payment charges	-	-	-	55	-	55
Exercise of share options	1	143	-	-	-	144
Exercise of warrants	2	208	-	-	-	210
At 31 July 2012	**99**	**4,113**	**935**	**194**	**5,092**	**10,433**

Details of the nature of each component of equity are set out in Notes 19 and 20.

Consolidated Cash Flow Statement

for the year ended 31 July 2012

	Notes	2012 £000	2011 £000
Operating activities			
Profit for the year		**2,416**	907
Finance income	10	**(61)**	(17)
Depreciation	13	**49**	20
Amortisation of intangible assets	14	**222**	115
Contingent consideration surplus		**-**	(45)
Income tax charge	11	**598**	208
Share based payment charges	8	**55**	17
Operating cash inflow before changes in working capital		**3,279**	1,205
Movement in inventories		**(102)**	(15)
Movement in trade and other receivables		**700**	(222)
Movement in trade and other payables		**191**	894
Cash generated from operations		**4,068**	1,862
Finance income	10	**61**	17
Income tax paid		**(521)**	(178)
Net cash flow from operating activities		**3,608**	1,701
Investing activities			
Purchase of plant and equipment	13	**(38)**	(453)
Payment of deferred consideration	17	**(1,000)**	(122)
Acquisition of subsidiaries	14	**2**	(922)
Net cash flow used in investing activities		**(1,036)**	(1,497)
Financing activities			
Dividends paid	26	**(48)**	-
Proceeds from exercise of warrants		**210**	-
Proceeds from exercise of share options		**144**	-
Expenses of share issues		**-**	(10)
Proceeds from the Placing		**-**	1,950
Net cash flow from financing activities		**306**	1,940
Net increase in cash and cash equivalents		**2,878**	2,144
Cash and cash equivalents at the beginning of the year		**4,690**	2,546
Cash and cash equivalents at the end of the year		**7,568**	4,690

Notes to the Consolidated Financial Statements

1 Reporting entity

Tracsis plc (the 'Company') is a company incorporated in the United Kingdom. The consolidated financial statements of the Company for the year ended 31 July 2012 comprise the Company and its subsidiaries (together referred to as the 'Group').

2 Basis of preparation

(a) Statement of compliance

The Group consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU and applicable law. The Company has elected to prepare its parent company financial statements in accordance with UK accounting standards and applicable law ('UK GAAP'). These parent company statements appear after the notes to the consolidated financial statements.

(b) Basis of measurement

The Accounts have been prepared under the historical cost convention.

(c) Functional and presentation currency

These consolidated financial statements are presented in sterling, which is the Company's functional currency. All financial information presented in sterling has been rounded to the nearest thousand.

(d) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision only affects that period, or in the period of the revision and future periods, if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have a significant effect on the Group financial statements and estimates with a significant risk of material adjustment in future years are disclosed in Note 4.

(e) Changes in accounting policies

IFRS and IFRIC are issued by the International Accounting Standards Board (the IASB) and must be adopted into European Union law, referred to as endorsement, before they become mandatory under the IAS Regulation.

The following new standards and amendments to standards have become effective for the current financial year and hence are reflected in these financial statements: These standards have not had a material impact on the financial statements.

- Amendment to IFRS7: Disclosures – Transfers of Financial Assets
- Amendment to IAS32: Classification of Rights Issues
- Revised IAS24: Related Party Disclosures

At the date of approval of these financial statements the following Standards and Interpretations were in issue and endorsed by the EU but not yet effective. It is not expected that the implementation of these standards will have a material effect on the financial statements:

- Amendment to IAS 1: Presentation of Items in Other comprehensive income
- Amendment to IAS 19: Employee Benefits
- Amendment to IFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendment to IAS 32: Offsetting Financial Assets and Financial Liabilities
- IFRS 10: Consolidated Financial Statements
- IFRS 13: Fair Value Measurement
- IFRS 9: Financial Instruments

Notes to the Consolidated Financial Statements continued

2 Basis of preparation (continued)

(f) Going concern

The Group is debt free and has substantial cash resources. The Board has prepared cash flow forecasts for the forthcoming year based upon assumptions for trading and the requirements for cash resources.

Based upon this analysis, the Board has concluded that the Group has adequate working capital resources and that it is appropriate to use the going concern basis for the preparation of the consolidated financial statements.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities, except as stated in note 2(e), which addresses changes in accounting policies.

(a) Basis of consolidation

The Group's accounting policy with respect to business combinations is set out above.

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of subsidiary companies have been changed where necessary to align them with the policies adopted by the Group.

The Group entities included in these consolidated financial statements are those listed in note 25.

All intra-group balance and transactions, including unrealised profits arising from intra-group transactions, are eliminated fully on consolidation.

(b) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable (excluding value added tax and discounts given) derived from the provision of goods and services to customers during the period. The Group derives revenue from software licences, post contract customer support, sale of hardware and consultancy services.

The Group recognises the revenue from the sale of software licences and specified upgrades upon shipment of the software product or upgrade, when there are no significant vendor obligations remaining, when the fee is fixed and determinable and when collectability is considered probable. Where appropriate the Group provides a reserve for estimated returns under the standard acceptance terms at the time the revenue is recognised. Payment terms are agreed separately with each customer.

Revenue from post contract customer support and consultancy services is recognised on a straight-line basis over the term of the contract. Revenue received and not recognised in the income statement under this policy is classified as deferred income in the balance sheet.

Revenue from hardware sales is recognised as the products are shipped to customers. Provision is made for any returns to customers, or credit notes to be issued.

(c) Property, plant and equipment

Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs. The corresponding liability is recognised within provisions. Items of property, plant and equipment are carried at depreciated cost.

Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Freehold buildings (excluding land)	–	4% on cost
Computer equipment	–	33 1/3% on cost
Office fixtures and fittings	–	10% - 20% on cost

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(d) Intangible assets

Goodwill

Goodwill arising on acquisitions comprises the excess of the fair value of the consideration for investments in subsidiary undertakings over the fair value of the net identifiable assets acquired at the date of acquisition. Adjustments are made to fair values to bring the accounting policies of the acquired businesses into alignment with those of the Company. The costs of integrating and reorganising acquired businesses are charged to the post acquisition income statement. Goodwill arising on acquisitions of subsidiaries is included in intangible assets.

Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the lowest level within the group at which the associated level of goodwill is monitored for management purposes and are not larger than the operating segments determined in accordance with IFRS 8 “Operating Segments”.

Business Combinations

From 1 August 2009 the Group has applied IFRS 3 *Business Combinations* (2008) in accounting for business combinations. The change in accounting policy has been applied prospectively and has had no material impact on earnings per share. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 August 2009, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For acquisitions prior to 1 August 2009, goodwill represents the excess of the cost of the acquisition over the Group’s interest in the recognised amounts (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of acquisition.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

Other intangible assets

An intangible asset, which is an identifiable non-monetary asset without physical substance, is recognised to the extent that it is probable that the expected future economic benefits attributable to the asset will flow to the group and that its cost can be measured reliably. The asset is deemed to be identifiable when it is separable or when it arises from contractual or other legal rights.

Intangible assets, primarily customer relationships and technology related assets, acquired as part of a business combination are capitalised separately from goodwill and are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using a straight line method over the estimated useful life of the assets of 20 years for customer related assets and 10 years for technology related assets.

(e) Impairment of non-current assets

Where an indication of impairment is identified, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If the recoverable amount (higher of fair value less cost to sell and value in use of an asset) is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

(f) Research and Development Costs

Expenditure on internally developed products is capitalised as intangible assets if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs would be amortised over the periods the Group expected to benefit from selling the products developed. At present, the Group has not considered that its development expenditure meets the criteria for capitalisation.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in the income statement as incurred.

(g) Financial instruments

The Group classifies its financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments, net of issue costs.

(i) Cash and cash equivalents

Cash and cash equivalents in the balance sheet are included at cost and comprise cash at bank, cash in hand and short term deposits with an original maturity of three months or less.

(ii) Trade receivables

Trade receivables do not carry interest and are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts.

(iii) Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

(iv) Equity instruments

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

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(h) Taxation

The tax on the profit or loss for the year represents current and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted at the balance sheet date.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying value in the financial statements.

The principal temporary differences arise from depreciation on plant and equipment and share options granted by the Group to employees and directors.

Deferred tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

(i) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders, or in the case of interim dividends, when paid.

(j) Leases

Rentals applicable where substantially all of the benefits and risks of ownership remain with the lessor are classified as operating leases and payments are charged to the income statement on a straight line basis over the period of the lease.

(k) Employee benefits

Wages, salaries, social security contributions, paid annual leave, bonuses and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Group. Where the Group provides long term employee benefits, the cost is accrued to match the rendering of the services by the employees concerned.

(l) Share based payments

The Group issues equity-settled share based payments to certain employees (including directors). Equity-settled share based payments are measure at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, together with a corresponding increase in equity, based upon the Group's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes option pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

Where the terms and conditions of options are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled transaction is cancelled, it is treated as if it had vested on the date of the cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction, and designated as a replacement transaction on the date that it was granted, the cancelled and new transactions are treated as if they were a modification of the original transaction as described in the previous paragraph.

Notes to the Consolidated Financial Statements continued

3 Significant accounting policies (continued)

(m) Retirement benefits

Contributions to defined contribution pension schemes are charged to the income statement in the year to which they relate.

(n) Exceptional items

Items which are significant by virtue of their size or nature and/or which are considered non-recurring are classified as exceptional operating items. Such items, which include for example costs relating to acquisitions, amortisation of intangible assets and share based payment charges, are included within the appropriate consolidated income statement category but are highlighted separately. Exceptional operating items are excluded from the profit measures used by the board to monitor underlying performance.

(o) Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. The Company considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

(q) Operating segments

The Group has determined that, based on its internal reporting framework and management structure, that it has only one reportable segment. Such determination is necessarily judgemental in its nature and has been determined by management in preparing the financial statements. The level of disclosure of segmental and other information is determined by such assessment.

Further details of the considerations made and the resulting disclosures are provided in note 6 to the financial statements.

(r) Inventories

Inventories are measured at the lower of cost and net realisable value. Provision is made for slow moving and obsolete inventories on a line by line basis.

Notes to the Consolidated Financial Statements continued

4 Critical Accounting Estimates and Judgements

The Group's accounting policies are set out in Note 3.

The Directors consider that the key judgements and estimates made in the preparation of the consolidated financial statements are:

Intangible fixed assets

On acquisition, the Company calculates the fair value of the net assets acquired. The assessment of intangible assets acquired has been performed using a discounted cash flow model. Significant judgement has been applied in assessing the future revenues to be achieved from that acquisition, the growth rate of that revenue and the discount factor to be applied.

Actual results may vary significantly from expectations in future years. Reviews of the Group's intangible fixed assets have been carried out, using commercial judgements and a number of assumptions and estimates have been used to support the carrying value of these assets. The amortisation period chosen for each asset requires the exercise of management judgement.

Revenue recognition

Certain of the Group's contracts for software licences, maintenance services and other consultancy projects have a term of more than one year. The Directors assess the fair value of the entire contract attributable to each of the different services and the timing of when revenues should be recognised and this assessment can differ from the legally contracted values. A level of judgement and estimate is required in assessing the level of potential customer returns for certain hardware products.

Share-based payments

The Group has equity settled share-based remuneration schemes for employees. The fair value of share options is estimated by using the Black-Scholes valuation model, on the date of grant based on certain assumptions. These assumptions include, among others, expected volatility, expected life of the options and number of options expected to vest.

Notes to the Consolidated Financial Statements continued

5 Acquisition of subsidiaries

Acquisition in the previous year: MPEC Technology Limited

On 1 June 2011, the Group acquired 100% of the issued share capital of MPEC Technology Limited, for a combination of cash and share based consideration. The Company is a niche developer and supplier of data logging and remote monitoring technology to the rail industry and the acquisition will lead to significant synergies given the respective offerings within the transport sector.

In the two month period to 31 July 2011 the company contributed revenue of £1,068,000 and operating profit of £357,000 to the Group's results. If the acquisition had occurred on 1 August 2010, management estimates that consolidated revenue would have been £2,905,000 and consolidated profit for the year would have been £841,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 August 2010.

The acquisition had the following effect on the Group's assets and liabilities on the acquisition date:

	Pre-acquisition carrying amount £000	Fair value adjustments £000	Recognised value on acquisition £000
Intangible assets: Customer relationships	-	1,279	1,279
Intangible assets: Technology assets	-	684	684
Tangible fixed assets	30	-	30
Inventories	119	-	119
Trade and other receivables	706	-	706
Trade and other payables	(303)	-	(303)
Income tax payable	(267)	-	(267)
Deferred tax liability	(7)	(490)	(497)
Net identified assets and liabilities	278	1,473	1,751
Goodwill on acquisition			271
			2,022
Consideration paid in cash			1,936
Net cash acquired			(1,014)
Net cash flow			922
Consideration paid: fair value of shares issued			100
Deferred contingent consideration:			
- cash			1,000
Total consideration			2,022

Pre-acquisition carrying amounts were determined based on applicable IFRSs, immediately prior to the acquisition. The values of assets and liabilities recognised on acquisition are the estimated fair values.

The fair value adjustments were provisional and arise in accordance with the requirements of IFRSs to recognise intangible assets acquired. In determining the fair values of intangible assets the Group has used discounted cash flow forecasts. The fair value of shares issued was based on market value at the date of issue.

The deferred contingent consideration was based on the maximum amount which could be payable under an earn out arrangement contained within the acquisition agreement. This contingent consideration was dependent upon certain earnings targets being met and will be dependent upon the absolute level of earnings achieved in a designated period post acquisition. During the year, the Group settled the deferred consideration liability in full of £1,000,000.

The Group incurred acquisition related costs of £37,000 which were included within administrative expenses in 2011.

Notes to the Consolidated Financial Statements continued

6 Segmental analysis

The Group's revenue and profit was derived from its principal activity which is the development, supply and aggregation of resource optimisation, data capture and reporting technologies and consultancy to companies in the passenger transport industries.

In accordance with IFRS 8 'Operating Segments', the Group has made the following considerations to arrive at the disclosure made in these financial statements.

IFRS 8 requires consideration of the Chief Operating Decision Maker ("CODM") within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, who review internal monthly management reports, budgets and forecast information as part of this. Accordingly, the Board of Directors are deemed to be the CODM.

Operating segments have then been identified based on the internal reporting information and management structures within the Group. From such information it has been noted that the CODM reviews the business as a single operating segment, receiving internal information on that basis. The management structure and allocation of key resources, such as operational and administrative resources, are arranged on a centralised basis. Due to the small size and low complexity of the business, profitability is not analysed in further detail beyond the operating segment level and is not divided by revenue stream.

The CODM reviews a split of revenue streams on a monthly basis and, as such, this additional information has been provided below.

	2012	2011
Revenue	**£000**	£000
Software licences	**1,658**	1,138
Post contract customer support	**334**	304
Consultancy and professional services, training and other revenue	**2,208**	1,573
Condition monitoring technology and embedded software & associated hardware	**4,468**	1,068
Total revenue	**8,668**	4,083

Reconciliations of reportable segment revenues, profit or loss, assets and liabilities and other material items

Information regarding the results of the reportable segment is included below. Performance is measured based on segment profit before income tax, as included in the internal management reports that are reviewed by the Board of Directors. Segment profit is used to measure performance. There are no material inter-segment transactions, however, when they do occur, pricing between segments is determined on an arm's length basis. Revenues disclosed below materially represent revenues to external customers.

	2012	2011
	£000	£000
Revenues		
Total revenue for reportable segments	**8,668**	4,083
Consolidated revenue	**8,668**	4,083
Profit or loss		
Total profit or loss for reportable segments	**3,279**	1,242
Unallocated amounts:		
Share based payment charge	**(55)**	(17)
Other exceptional items (net)	**-**	8
Depreciation	**(49)**	(20)
Amortisation of intangible assets	**(222)**	(115)
Interest receivable	**61**	17
Consolidated profit before tax	**3,014**	1,115

Notes to the Consolidated Financial Statements continued

6 Segmental analysis (continued)

	2012	2011
	£000	£000
Assets		
Total assets for reportable segments	**9,549**	7,280
Unallocated assets – intangible assets	**4,246**	4,470
Consolidated total assets	**13,795**	11,750

Liabilities		
Total liabilities for reportable segments	**2,660**	3,277
Unallocated liabilities – deferred tax	**702**	817
Consolidated total liabilities	**3,362**	4,094

Major customers

Transactions with the Group's largest customer represent 50% of the Group's total revenues (2011: 33%).

Geographic split of revenue

A geographical analysis of revenue is provided below:

	2012	2011
	£000	£000
United Kingdom	**8,376**	3,885
Rest of the World	**292**	198
Total	**8,668**	4,083

7 Employees and personnel costs

	2012	2011
	£000	£000
Staff costs:		
Wages and salaries	**2,258**	1,465
Social security contributions	**226**	146
Contributions to defined contribution plans	**53**	44
Equity-settled share based payment transactions	**55**	17
	2,592	1,672
Average number of employees (including directors) in the year	**65**	44

The directors' remuneration and share options are detailed within the Directors' Remuneration Report on pages 10 to 12.

8 Share based payments

The Group has a share option scheme for all employees (including directors). Options are exercisable at a price agreed at the date of grant. The vesting period is usually between one and five years. The exercise of options is dependent upon eligible employees meeting performance criteria. The options may not be exercised before the occurrence of a takeover, sale or admission. The options are settled in equity once exercised.

If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Options are forfeited if the employee leaves the Group before the options vest.

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

Details of the schemes are given below:

Grant date	Employees entitled	Number of options	Performance conditions	Exercise price (p)	Earliest exercise date	Expiry date
26/11/2007	3	525,102	None	40	26/11/2008	26/11/2017
28/01/2009	6	419,000	Time served	52	28/07/2009*	28/01/2019
20/05/2010	3	102,500	Time served	51.5	20/01/2011*	20/05/2020
01/08/2010	1	10,000	Time served	50.5	01/04/2011*	01/08/2020
12/01/2011	2	87,500	Time served	49.5	12/07/2011*	12/01/2021
01/06/2011	1	100,000	Time served	50.0	01/12/2011*	01/06/2021
22/09/2011	12	285,000	Time served	63.5	22/03/2012*	22/09/2021
21/11/2011	1	25,000	Time served	57.5	21/05/2012*	21/11/2021
01/02/2012	1	80,000	Time served	62.0	01/08/2012*	01/02/2022
20/06/2012	1	150,000	Time served	89.0	20/12/2012*	20/06/2022

* Vesting dates for these options are: 10% vest six months after grant date, 15% vest 12 months after grant date, 15% vest 18 months after grant date, 15% vest 24 months after grant date, 20% vest 30 months after grant date, 25% vest 36 months after grant date.

The number and weighted average exercise price of share options are as follows:

	2012 Number	**2012 Weighted Average Exercise Price**	2011 Number	2011 Weighted Average Exercise Price
Outstanding at 1 August	**1,637,602**	**47.8p**	1,580,102	48.3p
Granted	**540,000**	**70.1p**	197,500	49.8p
Forfeited	**(115,000)**	**52.0p**	(140,000)	51.8p
Exercised	**(278,500)**	**52.0p**	-	-
Outstanding at 31 July	**1,784,102**	**53.6p**	1,637,602	47.8p
Exercisable at 31 July	**1,085,477**	**46.3p**	1,157,602	46.5p

The share options outstanding at the end of the year have a weighted average remaining contractual life of 7 years (2011: 7 years).

Notes to the Consolidated Financial Statements continued

8 Share based payments (continued)

Fair value assumptions of share based payment charges
The estimate of the fair value of share based awards is calculated using the Black-Scholes option pricing model. The following assumptions were used:

Options granted in previous years:

Options granted on	01/06/ 2011	12/01/ 2011	01/08/ 2010	20/05/ 2010	17/03/ 2010	28/01/ 2009	26/11/ 2007
Share price at date of grant	50.0p	49.5p	50.5p	51.5p	50.5p	52p	40p
Exercise price	50.0p	49.5p	50.5p	51.5p	50.5p	52p	40p
Vesting period (years)	3	3	3	3	3	3	1
Expected volatility	15%	15%	15%	15%	15%	15%	40%
Option life (years)	10	10	10	10	10	10	10
Expected life (years)	10	10	10	10	10	10	10
Risk-free rate	3.5%	0.5%	0.5%	0.5%	0.5%	0.5%	4.75%
Expected dividends expressed as a dividend yield	-	-	-	-	-	-	-

Options granted in the current year:

Options granted on	22/09/ 2011	21/11/ 2011	01/02/ 2012	20/06/ 2012
Share price at date of grant	63.5p	57.5p	62.0p	89.0p
Exercise price	63.5p	57.5p	62.0p	89.0p
Vesting period (years)	3	3	3	3
Expected volatility	50%	50%	50%	50%
Option life (years)	10	10	10	10
Expected life (years)	10	10	10	10
Risk-free rate	3.5%	3.5%	3.5%	3.5%
Expected dividends expressed as a dividend yield	-	-	-	-

The expected volatility is based on the historic volatility of the Company's share price.

Charge to the income statement

	2012	2011
	£000	£000
Share based payment charges	**55**	17

In August 2012, the Group implemented a new EMI share option scheme, resulting in discounted EMI share options being issued to staff instead of cash bonuses, provided certain predetermined performance criteria were met. This was made available to all staff.

Notes to the Consolidated Financial Statements continued

9 Operating profit

	2012	2011
	£000	£000
Operating profit is stated after charging:		
Depreciation of property, plant and equipment	**49**	20
Operating lease rentals: Land and buildings	**51**	53
Research and development expenditure expensed as incurred	**403**	191

	2012	2011
	£000	£000
Auditor's remuneration:		
Audit of these financial statements	**17**	15
Amounts receivable by auditors and their associates in respect of:		
- Audit of financial statements of subsidiaries pursuant to legislation	**3**	3
- Other services relating to taxation	**5**	2
- Other services	**6**	-

10 Finance income

	2012	2011
	£000	£000
Interest received on bank deposits	**61**	17

11 Taxation

Recognised in the income statement

	2012	2011
	£000	£000
Current tax expense		
Current year	**716**	272
Adjustment in respect of prior periods	**(3)**	(22)
Total current year	**713**	250
Deferred tax		
Current year	**(127)**	(42)
Adjustment in respect of prior periods	**12**	-
Total deferred tax	**(115)**	(42)
Total tax in income statement	**598**	208

Notes to the Consolidated Financial Statements continued

11 Taxation (continued)

Reconciliation of the effective tax rate

	2012 £000	2012 %	2011 £000	2011 %
Profit before tax for the period	**3,014**	100.0	1,115	100.0
Expected tax charge based on the standard rate of corporation tax in the UK of 25.33% (2011: 27.33%)	**763**	25.3	305	27.3
Expenses not deductible for tax purposes	**4**	0.1	11	1.0
Research and development enhancement	**(112)**	(3.7)	(46)	(4.1)
Adjustment in respect of prior periods	**9**	0.2	(22)	(2.0)
Marginal relief / effect of small company tax rates	**(4)**	(0.1)	(8)	(0.6)
Other movements	**(62)**	(2.0)	(32)	(2.9)
Total tax expense	**598**	19.8	208	18.7

The Budget on 21 March 2012 announced further reductions in the rate of corporation tax in the UK. The incremental rate reduction from 26% to 24% to apply from April 2012 was substantively enacted in March 2012. The reduction from 24% to 23% to apply from April 2013 was substantively enacted in July 2012. The deferred tax calculations therefore reflect the reduction in corporation tax rate to 23%.

12 Earnings per share

Basic earnings per share
The calculation of basic earnings per share at 31 July 2012 was based on the profit attributable to ordinary shareholders of £2,416,000 (2011: £907,000) and a weighted average number of ordinary shares in issue of 24,260,000 (2011: 20,188,000), calculated as follows:

Weighted average number of ordinary shares
In thousands of shares

	2012	2011
Issued ordinary shares at 1 August	**24,036**	19,502
Effect of shares issued related to business combinations	**-**	33
Effect of shares issued for cash	**224**	653
Weighted average number of shares at 31 July	**24,260**	20,188

Diluted earnings per share
The calculation of diluted earnings per share at 31 July 2012 was based on profit attributable to ordinary shareholders of £2,416,000 (2011: £907,000) and a weighted average number of ordinary shares in issue after adjustment for the effects of all dilutive potential ordinary shares of 24,582,000 (2011: 20,245,000):

In addition, adjusted EBITDA* is shown below on the grounds that it is a common metric used by the market in monitoring similar businesses.

	2012 £000	2011 £000
Adjusted EBITDA*	**3,279**	1,242
Basic adjusted EBITDA* per share	**13.52p**	6.15p
Diluted adjusted EBITDA* per share	**13.34p**	6.13p

* Earnings before finance income, tax, depreciation, amortisation, exceptional items and share-based payment charges.

Notes to the Consolidated Financial Statements continued

13 Property, plant and equipment

	Freehold Land & Buildings £000	Motor Vehicles £000	Computer equipment £000	Office fixtures & fittings £000	**Total £000**
Cost					
At 1 August 2010	-	-	29	1	30
Additions	400	-	21	32	453
Arising on acquisition	-	21	44	7	72
At 31 July 2011	400	21	94	40	555
Additions	-	-	37	1	38
At 31 July 2012	400	21	131	41	593
Depreciation					
At 1 August 2010	-	-	19	-	19
Arising on acquisition	-	6	32	4	42
Charge for the year	6	1	11	2	20
At 31 July 2011	6	7	62	6	81
Charge for the year	12	7	24	6	49
At 31 July 2012	18	14	86	12	130
Net book value					
At 1 August 2010	-	-	10	1	11
At 31 July 2011	394	14	32	34	474
At 31 July 2012	**382**	**7**	**45**	**29**	**463**

Notes to the Consolidated Financial Statements continued

14 Intangible assets

	Goodwill	Customer related intangibles	Technology related intangibles	Total
	£000	£000	£000	£000
Cost				
At 1 August 2010	850	1,349	230	2,429
Acquisitions through business combinations	271	1,279	684	2,234
At 31 July 2011	1,121	2,628	914	4,663
Adjustments	(2)	-	-	(2)
At 31 July 2012	1,119	2,628	914	4,661
Amortisation and impairment				
At 1 August 2010	-	63	15	78
Charge for the year	-	80	35	115
At 31 July 2011	-	143	50	193
Charge for the year	-	131	91	222
At 31 July 2012	-	274	141	415
Carrying amounts				
At 1 August 2010	850	1,286	215	2,351
At 31 July 2011	1,121	2,485	864	4,470
At 31 July 2012	**1,119**	**2,354**	**773**	**4,246**

The following carrying values of intangible assets arising from the acquisitions of RWA Rail Limited in August 2008, Peeping Limited in July 2009, Safety Information Systems Limited in December 2009, and MPEC Technology Limited in June 2011 are analysed as follows:

	Goodwill		**Customer related intangibles**		**Technology related intangibles**	
	2012	2011	**2012**	2011	**2012**	2011
	£000	£000	**£000**	£000	**£000**	£000
RWA Rail Limited	**671**	671	**602**	637	**-**	-
Peeping Limited	**43**	43	**314**	332	**-**	-
Safety Information Systems Limited	**136**	136	**236**	249	**169**	192
MPEC Technology Limited	**269**	271	**1,202**	1,267	**604**	672
	1,119	1,121	**2,354**	2,485	**773**	864

The amortisation charge is recognised in the following line items in the income statement:

	2012	2011
	£000	£000
Administrative expenses	**222**	115

Customer related intangibles and technology related intangibles are amortised over their useful life, which is the period during which they are expected to generate revenue.

Notes to the Consolidated Financial Statements continued

14 Intangible assets (continued)

Goodwill acquired in a business combination is allocated to cash generating units (CGUs) and is tested for impairment on an annual basis, or more frequently if there are indications that the carrying value might be impaired, by comparing the carrying amount against the discounted cash flow projections of the CGU. CGUs are not larger than the operating segments of the Group.

The carrying value of the goodwill has been determined based on value in use calculations, covering detailed budgets and three year forecasts, followed by an extrapolation of expected cash flows at growth rates given below. The growth rates reflect prudent long term growth rates for the services provided by the CGU. Gross and operating margins have been assumed to remain constant based on budget and past experience.

	2012	2011
Long term growth rate	**1.0%**	1.0%
Discount rate	**10%**	10%

The directors' key assumptions relate to revenue growth and the discount rate, however, carrying value is not significantly sensitive to reasonably foreseeable changes in either assumption.

No impairment charges in respect of goodwill arose during the year.

15 Inventories

	2012	2011
	£000	£000
Raw materials & work in progress	**197**	116
Finished goods	**39**	18
	236	134

The value of inventories expensed in the period in cost of sales was £1,880,000 (2011: £472,000). The fair values of inventories are the same as their book values. Provision is made for slow moving and obsolete stock on a line by line basis. The value of any write downs in the period was not material.

16 Trade and other receivables

	2012	2011
	£000	£000
Trade receivables	**1,217**	1,910
Other receivables	**8**	18
Amounts recoverable on contracts	**9**	7
Prepayments	**48**	47
	1,282	1,982

Although the Group has a large number of customers, there is a concentration of risk in that the Group derives a large amount of revenue from one major customer, though the credit worthiness of this customer is unquestionably strong. In other cases, where one customer represents a significant proportion of overall revenue, the relationship consists of a large number of small contracts which are not considered to be interdependent. The directors do not consider that any of the amounts from the sale of goods to be irrecoverable, hence no provision has been made for bad or doubtful debts in either the current or preceding year.

The fair values of trade and other receivables are the same as their book values.

Notes to the Consolidated Financial Statements continued

16 Trade and other receivables (continued)

Trade receivables that are past due are considered individually for impairment. The Group uses a monthly ageing profile as an indicator when considering impairment. The summarised ageing analysis of trade receivables past due but considered to be not impaired is as follows:

	2012	2011
	£000	£000
Under 30 days overdue	**224**	475
Between 30 and 60 days overdue	**21**	126
Over 60 days overdue	**5**	17
	250	618

The other classes within trade and other receivables do not contain impaired assets. The Group did not incur any material impairment losses on trade receivables in the period.

17 Trade and other payables

	2012	2011
	£000	£000
Trade payables	**393**	583
Other tax and social security	**305**	347
Accruals and deferred income	**1,230**	807
Contingent consideration	**-**	1,000
	1,928	2,737

The Directors consider that the carrying amounts of trade payables approximates to their fair value.

Deferred income relates to sales invoiced in advance of the completion of post contract customer support, and also instances where the Group has raised sales invoices in advance of installation and acceptance of certain software sales, and also for software licences covering several accounting periods. Support will be recognised in the income statement over the remaining period of the contract, with other deferred income being recognised when the successful installation takes place, or over the period of time for which multiyear deals relate to.

Contingent consideration of up to £1,000,000 was payable to the vendor of MPEC Technology Limited depending on the financial performance of the company over the two years following acquisition. During the year, the full amount of £1,000,000 was paid in cash, being the maximum amount payable in accordance with the Sale and Purchase Agreement.

Notes to the Consolidated Financial Statements continued

18 Deferred tax

Non-current liability/(asset)	Intangible assets £000	Accelerated capital allowances £000	Share options £000	Total £000
At 31 July 2010	394	1	(33)	362
Credit to income statement	(19)	7	(4)	(16)
Change in tax rates	(28)	-	2	(26)
Arising on acquisition	-	7	-	7
Acquisition of subsidiaries	490	-	-	490
At 31 July 2011	837	15	(35)	817
Credit to income statement	(56)	(1)	(8)	(65)
Adjustments in respect of previous years	-	12	-	12
Change in tax rates	(63)	(2)	3	(62)
At 31 July 2012	**718**	**24**	**(40)**	**702**

Deferred tax is disclosed as a non-current liability in the Consolidated Balance Sheet.

The closing deferred tax asset and liability has been calculated at 23% as at 31 July 2012 (2011: 25%).

Notes to the Consolidated Financial Statements continued

19 Share capital

	2012 Number	2012 £	2011 Number	2011 £
Allotted, called up and fully paid:				
Ordinary shares of 0.4p each	**24,839,192**	**99,357**	24,035,588	96,142

The following share transactions have taken place during the year ended 31 July 2012:

525,104 shares were issued following the exercise of warrants on 22 March 2012.

278,500 share options, under the Group's EMI share options scheme were exercised at various points in the year.

This is summarised as follows:

	2012 Number	2011 Number
At start of the year	**24,035,588**	19,502,255
Share Placing	**-**	4,333,333
Issued as consideration for business combinations	**-**	200,000
Exercise of warrants	**525,104**	-
Exercise of share options	**278,500**	-
At end of the year	**24,839,192**	24,035,588

20 Capital and reserves

The following describes the nature and purpose of each reserve:

Reserve	**Description and purpose**
Share capital	Amount subscribed for share capital at nominal value
Share premium	Amount subscribed for share capital in excess of nominal value
Merger reserve	Amounts arising from the premium of the fair value of shares issued over their nominal value, in respect of certain business combinations, as required by the Companies Act 2006
Share based payments reserve	Amounts arising from the requirement to expense the fair value of share options in accordance with IFRS2 Share-based Payments
Retained earnings	Cumulative net profits recognised in the income statement

21 Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	2012 £'000	2011 £'000
Within one year	**6**	19
Between one and five years	**55**	-

The Group leases two office facilities under operating leases. During the year £51,000 was recognised as an expense in the income statement in respect of operating leases (2011: £53,000).

Notes to the Consolidated Financial Statements continued

22 Financial risk management

The principal financial instruments comprise cash and short term deposits. The main purpose of these financial instruments is to provide finance for the Group's operations. The Group has various other financial instruments, such as trade receivables and payables that arise directly from its operations. The Group has taken advantage of the exemption to exclude short term debtors and creditors from the disclosures given below. The fair values of the financial instruments are equal to their year end carrying values and represent the maximum exposure.

	2012			2011		
Financial assets	**Fixed Rate £000**	**Floating Rate £000**	**Total £000**	Fixed Rate £000	Floating Rate £000	Total £000
Cash and short term deposits	**2,864**	**4,704**	**7,568**	1,680	3,010	4,690

The Group had no financial liabilities or derivative contracts in either the current or previous year. It is policy that no trading in financial instruments should be undertaken. The surplus cash balances have been invested in deposit accounts.

The principal financial instruments used by the Group, from which financial instrument risk arises, are as follows:
- trade receivables;
- cash at bank;
- trade and other payables.

The main risks arising from the financial instruments are interest rate risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Fair value or cash flow interest rate risk
Currently the Group has surplus cash balances so does not have a borrowing requirement. Surplus cash is put on short term deposit with high credit worthy banking institutions where appropriate at either fixed or floating rates. The Board monitors the financial markets and the Group's future cash requirements to ensure that this policy is exercised in the Group's best interests. At 31 July 2012 the Group had fixed-rate deposits in place as follows:
- £639,000 placed on a fixed 1 month term deposit at an interest rate of 1.02%
- £254,000 placed on a fixed 1 month term deposit at an interest rate of 0.96%
- £812,000 placed on a fixed 3 month term deposit at an interest rate of 1.38%
- £506,000 placed on a fixed 3 month term deposit at an interest rate of 1.41%
- £402,000 placed on a fixed 3 month term deposit at an interest rate of 1.41%
- £251,000 placed on a fixed 3 month term deposit at an interest rate of 1.60%

Credit risk
The Group monitors credit risk closely and considers that its current policies of credit checks meet its objectives of managing exposure to risk. The Group has no significant concentration of credit risk. Amounts shown in the balance sheet best represent the maximum credit risk exposure in the event that other parties fail to perform their obligations under financial instruments.

Liquidity risk
Liquidity risk is managed on a day to day basis. Facilities are agreed at appropriate levels having regard to the Group's forecast operating cash flows and future capital expenditures.

Capital disclosures
The Group's objectives when maintaining capital are:
- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and;
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The capital structure of the Group consists of cash and cash equivalents, and equity attributable to shareholders of the parent, comprising issued share capital, reserves and retained earnings as disclosed in the Consolidated Statement of Changes in Equity and Notes 12, 19 and 20. The Group sets the amount of capital it requires in proportion to risk. The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the Consolidated Financial Statements continued

22 Financial risk management (continued)

Sensitivity analysis

In managing interest rates the Group aims to reduce the impact of short term fluctuations on the Group's earnings. Over the long term, permanent changes in interest rates would have an impact on consolidated earnings. The Directors consider that a change of 100 basis points in interest rates at any period end would not have a material impact on cash flows.

Market risks

The Directors consider that the Group has no significant exposure to market risks with respect to its financial instruments.

23 Related party transactions

The following transactions took place during the year with other related parties:

	Purchase of goods and services		Amounts owed to related parties	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Leeds Innovation Centre Limited[1]	**46**	45	**4**	4
Techtran Group Limited[2]	**-**	1	**-**	-
First Class Partnerships Limited[3]	**75**	4	**-**	-
Atraxa Consulting Limited[4]	**-**	28	**-**	2

	Sale of goods and services		Amounts owed by related parties	
	2012	2011	**2012**	2011
	£000	£000	**£000**	£000
Hull Trains Company Limited[5]	**12**	-	**-**	-

1 – Leeds Innovation Centre Limited is a company which is connected to The University of Leeds. Tracsis plc rents its office accommodation, along with related office services, from this company.

2 – Techtran Group Limited is a significant shareholder in the Company and supplies staff on secondment, and office services to the Group.

3 – First Class Partnerships Limited is a company of which John Nelson, a Non-executive Director of the Group is Chairman and shareholder. During the year ended 31 July 2011, First Class Partnerships Limited provided advice to the Group as part of its due diligence for the acquisition of MPEC Technology Limited. In the year ended 31 July 2012, the Group utilised the services of a First Class Partnerships Limited consultant, who was involved in chargeable work to a customer of the Group, and was charged on to the relevant customer.

4 – Atraxa Consulting Limited provided accountancy services to the Group during previous years. Darran Bamforth, a former Director of the Group is a director and shareholder of Atraxa Consulting Limited

5 – Hull Trains Company Limited is a company of which John Nelson, a Non-executive Director of the Group is a Director and shareholder. The Group performed various consultancy services in the period to Hull Trains.

Terms and conditions of transactions with related parties

The purchases from related parties are made at normal market prices. Outstanding balances that relate to trading balances are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of key management personnel of the Group

The Group considers the directors to be its key management personnel. Full details of their compensation are set out in the Directors' Remuneration Report.

Notes to the Consolidated Financial Statements continued

24 Employee benefits

The Group makes contributions to defined contribution pension schemes for its employees. The pension cost charge for the year comprises contributions payable by the Group to the schemes and other personal pension plans and amounted to £53,000 (2014: £44,000). There were outstanding contributions at 31 July 2012 of £12,000 (2011: £9,000).

25 Group entities

Below are the principal subsidiary undertakings which contribute to the Group results:

Held by Tracsis plc	Principal activity	Country of incorporation	% ordinary share capital owned
R.W.A. Rail Limited	Rail industry consultancy	England and Wales	100%
Peeping Limited	Rail industry consultancy	England and Wales	100%
Safety Information Systems Limited	Software and consultancy	England and Wales	100%
MPEC Technology Limited	Rail industry hardware & Datalogging	England and Wales	100%

26 Dividends

The Group introduced a progressive dividend policy during the year. No dividends were paid for the year ended 31 July 2011. The cash cost of the dividend payments is shown below:

	2012	2011
	£000	£000
Interim dividend for 2011/12 of 0.2p per share paid	**48**	-
Final proposed dividend for 2011/12 of 0.35p per share	**87**	-

The dividend will be payable on 1 February 2013 to shareholders on the Register at 18 January 2013.

Company Balance Sheet (presented under UK GAAP)

as at 31 July 2012

Company number: 05019106

	Note	2012 £000	2011 £000
Fixed assets			
Tangible fixed assets	28	**384**	398
Investments	29	**6,248**	6,250
Current assets			
Deferred tax		**33**	34
Debtors	30	**545**	399
Cash at bank and in hand		**5,621**	3,807
		6,199	4,240
Creditors: amounts falling due within one year	31	**(5,308)**	(4,300)
Net current assets/(liabilities)		**891**	(60)
Total assets less current liabilities		**7,523**	6,588
Net assets		**7,523**	6,588
Capital and reserves			
Called up share capital	32	**99**	96
Share premium reserve	33	**4,113**	3,762
Merger reserve	33	**935**	935
Share based payments reserve	33	**194**	139
Retained earnings	33	**2,182**	1,656
Shareholders' funds	35	**7,523**	6,588

The financial statements were approved and authorised for issue by the Board of Directors on 30 October 2012 and were signed on its behalf by:

John McArthur – Chief Executive Officer

Max Cawthra – Chief Financial Officer

Notes to the Company Balance Sheet

27 Company accounting policies (UK GAAP)

Basis of preparation
As used in the financial statements and related notes, the term ‘Company’ refers to Tracsis plc. The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act, the separate financial statements have been prepared in accordance with UK Generally Accepted Accounting Principles (‘UK GAAP’).

These accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention.

A separate profit and loss account dealing with the results of the company only has not been presented, as permitted by section 408 of the Companies Act 2006.

Under FRS 1 the Company is exempt from the requirement to present its own cash flow statement.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable (excluding value added tax and discounts given) derived from the provision of goods and services to customers during the period. The Company derives revenue from software licences, post contract customer support and consultancy services.

The Company recognises the revenue from the sale of software licences and specified upgrades upon shipment of the software product or upgrade, when there are no significant vendor obligations remaining, when the fee is fixed and determinable and when collectability is considered probable. Where appropriate the Company provides a reserve for estimated returns under the standard acceptance terms at the time the revenue is recognised. Payment terms are agreed separately with each customer.

Revenue from post contract customer support and consultancy services is recognised on a straight-line basis over the term of the contract. Revenue received and not recognised in the profit and loss account under this policy is classified as deferred income in the balance sheet.

Revenue from other products and services is recognised as the products are shipped or services provided.

Tangible fixed assets
Tangible fixed assets are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

Depreciation is provided on all items so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Freehold buildings (excluding land)	–	4% on cost
Computer equipment	–	33 1/3% on cost

Investments
Fixed asset investments are stated at cost less provision for impairment where appropriate. The directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged in the profit and loss account in the year.

Taxation
The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred taxation is recognised, without discounting, in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

Leases
Rentals applicable where substantially all of the benefits and risks of ownership remain with the lessor are classified as operating leases and payments are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes to the Company Balance Sheet continued

27 Company accounting policies (UK GAAP) (continued)

FRS20 share based payments

The Company has adopted FRS20 and the accounting policies followed are in all material regards the same as the Group's policy under IFRS2 'Share based payments'. The policy is shown in the Group's accounting policies on pages 22 to 26.

28 Tangible fixed assets

	Freehold Land & Buildings £000	Computer equipment £000	**Total £000**
Cost			
At 1 August 2011	400	23	423
Additions	-	-	-
At 31 July 2012	400	23	423
Depreciation			
At 1 August 2011	6	19	25
Charge for the year	12	2	14
At 31 July 2012	18	21	39
Net book value			
At 31 July 2011	394	4	398
At 31 July 2012	**382**	**2**	**384**

29 Investments

	Shares in subsidiary undertakings £000
Cost	
At 1 August 2011	6,250
Adjustment	(2)
At 31 July 2012	**6,248**

The adjustment in the period relates to a refund of Stamp Duty following the finalisation of the completion accounts in respect of the acquisition of MPEC Technology Limited

Notes to the Company Balance Sheet continued

29 Investments (continued)

The companies in which Tracsis plc's interest is more than 20% at the year end are as follows:

Subsidiary undertaking	Country of incorporation	Principal activity	Class and percentage of shares held	Holding
R.W.A. Rail Limited	England and Wales	Rail industry consultancy	Ordinary 100%	Direct
Peeping Limited	England and Wales	Rail industry ancillary services	Ordinary 100%	Direct
Safety Information Systems Limited	England and Wales	Software and consultancy	Ordinary 100%	Direct
MPEC Technology Limited	England and Wales	Rail industry hardware & datalogging	Ordinary 100%	Direct

30 Debtors

	2012 £000	2011 £000
Trade debtors	**513**	362
Other debtors	**8**	13
Prepayments	**24**	24
	545	399

31 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Trade creditors	**23**	9
Other tax and social security	**162**	86
Corporation tax	**150**	82
Amounts owed to subsidiary undertakings	**4,317**	2,792
Accruals and deferred income	**656**	331
Contingent consideration	**-**	1,000
	5,308	4,300

32 Share capital

	2012 Number	**2012 £**	2011 Number	2011 £
Allotted, called up and fully paid:				
Ordinary shares of 0.4p each	**24,839,192**	**99,357**	24,035,588	96,142

The following share transactions have taken place during the year ended 31 July 2012:

525,104 shares were issued following the exercise of warrants on 22 March 2012.

278,500 share options, under the Group's EMI share options scheme were exercised at various points in the year.

Notes to the Company Balance Sheet continued

33 Reserves

	Share premium account £000	Merger reserve £000	Share based payments reserve £000	Profit and loss account £000
At 1 August 2011	3,762	935	139	1,656
Dividends	-	-	-	(48)
Issue of new shares	351	-	-	-
Profit for the period	-	-	-	574
Share based payment charges	-	-	55	-
At 31 July 2012	**4,113**	**935**	**194**	**2,182**

34 Operating leases

Operating lease commitments

The minimum annual lease payments to which the Company is committed under non-cancellable operating leases for the coming year are as follows:

Land and buildings:	**2012 £'000**	2011 £'000
On leases expiring:		
Within one year	**6**	5

35 Reconciliation of movement in shareholders' funds

	2012 £'000	2011 £'000
Profit attributable to ordinary shareholders	**574**	281
Dividends paid	**(48)**	-
Other recognised gains:		
- Issue of new shares (net of issue costs)	**354**	2,040
- Share based payments	**55**	17
	935	2,338
Opening shareholders' funds	**6,588**	4,250
Closing shareholders' funds	**7,523**	6,588

Group information

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