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Annual Report & Accounts 2008
IS Solutions plc

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Statement by the Chairman

Against a background of global and economic uncertainty, the completion of the transfer to AIM and the acquisition of Chapter26 Ltd ('Chapter26') the Board is pleased to announce a strong performance in the year to 31 December 2008.

Financial Results

The Board is pleased to report an overall strong performance with revenues growing to £8.85 million (2007: £7.89 million), an increase of 12.16%. Of this increase 9.04% can be attributed to Chapter26 (which contributed to five months of Group revenue) whilst the underlying business achieved growth of 3.12%. This creditable organic growth was achieved principally in the areas of content management, automated compliance testing (Watchfire based projects) and support contracts.

Group profit (pre-tax, AIM transfer costs and intangible amortisation of £99,000 (2007: £30,000)) rose by 25.23% to £551,000 (2007: £440,000). Reported profit before tax increased to £452,000 (2007: £410,000), of which 6% was organic improvement.

Diluted earnings per share, inclusive of the recognition of a deferred tax asset of £63,000 in 2007 decreased by 2.15% to 1.82 pence (2007: 1.86 pence and exclusive of the recognition of the deferred tax asset was 1.59 pence). Accordingly, 2008 showed a 14.46% increase on a like-for like-basis.

Net assets at 31 December 2008 were £2.96 million (2007: £3.07 million). Cash flow from operations was £325,000 (2008: £1.10 million) leaving cash at the year end of £1.76 million (2007: £2.50 million) after the acquisition of Chapter26, increased dividend payments and purchase of treasury shares during the year.

Overview

Against the background of an uncertain economic environment throughout 2008, the Group achieved strong growth both in its project work and also web services (support contracts), resulting in an increase in our recurring revenue stream.

Overall product sales were down on the previous year but the second half of the year saw a resurgence in our low margin distribution business, revenues from which rose to £1.51 million (2007: £1.03 million) resulting in a year on year growth of 46%. Notwithstanding this movement in revenues, the Group maintained its gross profit margin due to our services revenue growing by £999,000 (of which Chapter26 contributed £654,000) to £4.63 million (2007: £3.64 million) a total increase for the year of 27.50% and organic growth of 9.50%.

On 16 June 2008, the Group transferred trading in the Company's shares from the main market of the London Stock Exchange to AIM. AIM offers the Group greater flexibility, particularly with regard to corporate transactions where we believe that the Company can agree and execute certain transactions more quickly and cost-effectively.

This proved to be the case in July when a major event for the Group was the acquisition on 22 July 2008 of Chapter26, specialists in enterprise content management services.

The Company has a content management practice that addresses the small to medium sized/departmental business and with the addition of Chapter26 has extended its offering into the enterprise arena allowing us to capitalise on the fast growing CMS market. This combination gives us a solid platform on which to build and to exploit in the future.

Statement by the Chairman (Continued)

As shareholders can see from our financial results above, Chapter26 contributed strongly to the Group's performance in the five months to December 2008. The integration of Chapter26 will be completed during 2009 and we expect to see further growth and another solid contribution from the business during 2009.

Personnel

Once again the Board would like to express its appreciation and thanks to all employees for their support throughout the whole of 2008. It is the teamwork and commitment to quality shown by our employees that has allowed us to build the strong and sustainable relationships we have with our clients and suppliers which will carry us through the current economic turbulence.

Dividend

In 2007, the Company increased the dividend by 100% reflecting the underlying strength of the business. This was paid in 2008.

The Group continues to have a strong balance sheet and cash flow and although it has produced a creditable second half performance in 2008 coupled with a reasonable start to trading in the current financial year, the Directors believe, in view of the general uncertainties around which could impact both our customers and markets, that it would be prudent to preserve the Group's financial strength. This action will not only safeguard the business and its people in the short-term but it will allow us to continue to invest and develop the business for the future.

Therefore, the Board will be recommending to shareholders a maintained final dividend of 0.67 pence which, with the interim dividend of 0.33 pence paid, gives a total dividend for the year of 1.00 pence (2007: 1.00 pence).

The final dividend which is subject to shareholders' approval at the AGM (which is to be held on 14 May 2009) will be paid on 22 May 2009 to shareholders on the Register at close of business on 24 April 2009.

Outlook

The Group has continued to see a robust demand for its services from our longstanding clients and this, coupled with the addition of new clients won in the early part of the new financial year, leads the Board to be optimistic about the future, notwithstanding the economic situation we find ourselves in.

In addition, certain of the areas in which the Company operates (such as online meetings) are areas that can actively assist companies in an economic downturn whilst others are driven by compliance and regulatory issues and we are also now finding that our financial strength and track record is assisting us to win business as clients look for stability in their suppliers.

The spread of products and services, coupled with our strong balance sheet, gives the Board confidence for the future and leaves the Group well placed and in a position to take advantage of new opportunities for acquisitions which may arise from the current climate.

Barrie Clark, Chairman
27 March 2009

Statement by the Managing Director

2008 has been an interesting year starting as it did against a background of economic uncertainty created by the disruption in the financial markets and then, as we progressed through the year, turning into a full blown meltdown in the financial arena creating significant knock-on effects in the world economy.

Fortunately the effects of the financial crisis did not have any major impact on our business during the year and whilst we saw some cutback in expenditure from our existing clients, this was offset by business won with new clients.

Our acquisition of Chapter26 Ltd. in July is also working well and, as noted in the Chairman's Statement, they have contributed strongly to the full year results. Further on in this statement you will find an overview of their services under the heading of "Web and Enterprise Content Management".

The software distribution side of the business was one area that did suffer through the year as it tends to be high value investment levels, which are one of the first things to be cut in an economic downturn. However, although this impacts the top line turnover, it has less impact on the bottom line as it is low margin business. Overall, our project and service areas both grew throughout the year showing an increase over 2007 of 8.1%. It is growth in this area that will minimise any impact from the recession that we find ourselves in.

The emphasis in 2009 is on working closely with our clients to maximise return on investment in anything they do. Our major clients are all blue chip organisations and recognise the value of investing in the web. However, they are not immune to the recession and it is our job, whether in recession or not, to ensure they can maximise value from the use of it.

One area where clients can actually save money from the use of the web is in online meetings and remote training, which is a good area for the company. Another area which is key in the current climate is risk management and you will find below an update on what we are doing in this area with IBM's Rational Policy Tester (formally Watchfire).

Online risk managment

IS Solutions offer a comprehensive range of services when deploying Rational Policy Tester , this includes Proof of Concept, Business Analysis, Consultancy, Implementation, Set-up, Hosting, Support and Maintenance.

Rational Policy Tester automates the process of scanning, analysing, reporting & prioritizing issues with online Accessibility, Quality and Privacy across internal & externally facing websites. Rational Policy Tester provides visibility and control to properly manage online risks by providing executive dashboards that identify, prioritise, assign and track issues through to resolution. It is equally valuable as a management tool for both publicly facing internet sites as it is for internal intranet sites. It represents the only complete enterprise class online risk management platform available today for companies. The trending and reporting features of the tool are used by many leading companies as a key part of their online quality management programmes.

Existing IS Solutions Rational Policy Tester clients include BT, O2, Vodafone, Red Bee and Sanofi Aventis.

Statement by the Managing Director (Continued)

Web and enterprise content management

IS Solutions has consistently advocated the use of content management systems as a way of automating the publishing process, increasing the speed of content delivery to users and improving information flow between an organisation and its customers, suppliers and employees. It has only been in the last few years though that we have witnessed content management truly hitting the IT mainstream – this is manifested by the growth in solutions within this space, both licensed and open source, and by the attention given to content management by some of the industry's most prominent vendors.

IS Solutions has continued to embrace content management technologies and we have enjoyed considerable success in delivering projects in this area. Specifically, we have increased the number of clients underpinning their websites with web content management systems and, in particular, the rapidly growing EPiServer platform for which we are a Solution Partner.

In the early part of the year we looked to enhance our offerings in the area of enterprise content management which led to the acquisition of Chapter26 in July. This has opened up new opportunities for the group in this technology sector and significantly extended our expertise and reach. In particular, we have new skills in the delivery of EMC Documentum solutions as well as augmenting our previous capabilities in the deployment of both BEA ALUI (now Oracle WebCenter Suite) and MOSS - Microsoft Office SharePoint Server technologies. In the following pages you will find an example of the deployment of this technology in the Chapter 26 client, Amey.

John Lythall, Managing Director
27 March 2009

Case Study :: Exemplas

Exemplas is a non-profit distribution organisation that specialises in corporate development, leadership skills and training, change management and a range of related organisational disciplines.

Exemplas assesses the needs of private, public and community organisations, both in the UK and overseas, and builds tailored solutions to meet those needs. Exemplas jointly runs both Business Link East of England and Business Link Yorkshire. Other successful projects have been delivered for Jobcentre Plus and The Learning and Skills Council as well as for regional development agencies and local authorities.

IS Solutions has been working with Exemplas since 2007 on solutions around the organisation's own web site and those of its clients.

Challenge

Exemplas initially approached IS Solutions to bid for the development of a new corporate web site. Although we were unsuccessful in winning the contract for the redesign, we were asked to provide a service management solution to host and operate the server from which the site was delivered together with an associated Google Search Appliance.

Having demonstrated our credentials with this service, Exemplas then asked IS Solutions to design and develop a new web site for Adaptex, a business change management and adaptability tool. We were also approached to redevelop two other websites owned or operated by Exemplas.

Solution

IS Solutions applied a design and development process, that has evolved from our experience in successfully delivering hundreds of web sites since 1996, to capture Exemplas' requirements. This process was facilitated by our award-winning interactive studio and resulted in the joint agreement of communications messages and designs that met their needs. IS Solutions then used its skilled team of web designers and software developers and was able to take these requirements and deliver the sites in just a few weeks.

All these sites use the EPiServer CMS, a leading content management system based on Microsoft .NET. This enables sites to be easily maintained by non-technical users from across the client organisation, ensuring that content is as accurate as possible and delivered in a timely manner.

Key Technologies:

- EpiServer
- Microsoft SQL Server
- Microsoft Windows Server

Key Activities:

- Business and technical consultancy
- Creative design and information architecture
- Technical development and graphical production
- Project management
- Hosting, maintenance and support

Case Study :: Exemplas (Continued)

The sites that were developed as part of this project were:

www.adaptexonline.co.uk

www.biopark.co.uk

www.hertsprosperity.com

Case Study :: Amey Documentum V6 Upgrade

Amey Plc (Amey) is one of the UK's leading support services companies, providing for clients in sectors as diverse as aviation, defence, rail and strategic highways as well as in central government, local government and education.

Amey is part of the Ferrovial Group, Europe's second largest construction company, and has a UK-wide presence with over 200 locations nationwide and more than 8,000 employees.

Amey has worked with Chapter26, an IS Solutions company, since 2004. Chapter26 is an EMC Documentum partner with Select Services Team status.

Challenge

In 2005 Amey was using a Document Management System called SER. SER managed Amey's controlled documents and supported intranet access as well as providing the ability to manually publish sections of a folder structure, and the files within, onto CDs. Some of Amey's employees work on secure client sites with little access to Amey central systems and, in order to provide them with the necessary information, a CD version of the controlled published documents was downloaded by an automated publishing process and regularly dispatched to them. The SER application had many limitations and was reaching "end of life" for support towards the end of 2005. At that time, Amey chose Documentum as a replacement technology for SER to provide a platform to meet future business requirements.

Since its initial implementation in 2005, Documentum has become a cornerstone application supporting Amey's day-to-day business operations and new bids. Documentum provides:

- Operational Policy & Procedure information to all Amey employees.
- A Bid Knowledge Bank.
- A Best Practice Library.
- Document Templates.

This information is served to Amey employees through their secure intranet and extranet.

The next challenge was to upgrade to the latest version of Documentum from EMC. There were a number of significant developments in Documentum from version 5 (D5) to version 6 (D6). These developments addressed the user experience, enhanced search functionality, collaboration, consolidated Records & Retention function, improved workflow and BPM as well as providing superior integration with other software applications including a tight integration with Microsoft Office and SharePoint Server 2007.

Solution

There were a number of compelling reasons why Amey chose to upgrade to D6. These can be summarised as:

- Exploit the latest functionality within Documentum.
- Benefit from standard functionality to reduce the level of customisation within the application.
- Provide a platform more easily integrated with Microsoft Office and SharePoint Server 2007.
- Continue to have the software supported by EMC.

Case Study :: Amey Documentum V6 Upgrade (Continued)

Additionally, the upgrade provided an opportunity to move the Documentum systems onto a VMWare ESX platform providing server infrastructure consolidation and application mobility.

The D6 upgrade project was scoped and delivered in approximately 60 days. Using the Chapter26 Project Methodology (CPM), the project was comprised of the following elements:

- Thorough review of existing D5.2.5 application and components
- Review application in detail with consideration of D6 standard functionality to replace customisations:
  - WDK components
  - Extended components
  - Custom components
- Identify upgrade routes for installed D5 applications
- Upgrade environment:
  - Create and clone base 525 environment
  - Upgrade to interim D5.3
  - Upgrade to D6
- Create new VMware ESX based infrastructure-server consolidation
- Upgrade application:
  - Components
  - Server methods
  - 'BOF' elements
- System integration and UAT
- Data migration
- Production release
- Project management

The D6 upgrade was performed on time and to budget. The next stage for Amey was to develop their intranet and extranet to provide an enhanced user and client experience using Documentum as the secure source of information surfaced through a Microsoft SharePoint 2007-based portal.

Ian Hamilton, Amey's Document Systems Manager, commented: "The D6 upgrade was a great success, largely due to the efficiency and collaborative style of Chapter26. We now have the building blocks to deliver excellent solutions to our users and clients".

Key Technologies

- EMC Documentum D6
- VMware ESX

Key Activities

- Business and technical consultancy
- Systems integration
- Application hosting
- Project management
- Application support

Corporate Governance

Statement by the Directors on compliance with the Combined Code

The Group is committed to the principles of Corporate Governance contained in the 2006 Combined Code which was issued by the Financial Reporting Council ("the Code") and for which the Board is accountable to shareholders. This statement of Corporate Governance, together with the Report on Directors' Remuneration explains how the Group has applied the principles set out in Section 1 of the Code.

The Group throughout the year and to the date of this report complied with the Combined Code apart from the following:

- Nominations Committee. For the year under review the Board considered that the company is not of sufficient size to warrant a Nominations Committee (A.4.1).

A statement of the directors' responsibilities in respect of the accounts is set out on page 19. Below is a brief description of the role of the Board and its committees, followed by a statement regarding the Group's system of internal financial control.

The Board

The Board comprises four non-executive directors and four executive directors and is responsible to shareholders for the proper management of the Group. The non-executive directors are Peter English, Roger McDowell, Michael Tinling (Company Secretary) and Barrie Clark, who is chairman of the Board and senior independent director. All four non-executive Directors are considered to be independent within the meaning of provision A.3.2 of the Code. Roger McDowell was appointed on 17 January 2008. The terms and conditions of employment of the four non-executive directors are available on request from the Company Secretary or at the AGM.

The Board met 12 times with all directors in attendance, reviewing trading performance, setting and monitoring strategy, and examining major capital expenditure and acquisition opportunities. A procedures manual for directors and senior managers has been adopted which reserves decisions on specific matters to the Board, which include strategic matters and approval of annual plans or variations thereto. All directors have access to the advice and services of the Company Secretary.

Audit Committee

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

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

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

Remuneration Committee

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

Corporate Governance (Continued)

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

Internal controls

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

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

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

The Board has reviewed the effectiveness of the Group's internal control systems from the period 1 January 2008 to the date of approval of these financial statements. The Board reviews the effectiveness of its control assessment system on a regular basis. The Board also ensures that it accords with the revised guidance within the combined code. Given the current size of the Group, the directors consider that an internal audit function would not be appropriate, however this matter is kept under review.

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

Control Environment and Procedure

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

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

The directors and operating company management meet on a regular basis to communicate the Group's commitment to professionalism and competence.

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

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

The Role of the committees is considered by the executive directors without the presence of the non-executive directors.

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

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

Auditor independence

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

Risk Management

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

Investor Relations

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

Financial Reporting

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

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

On behalf of the Board

Michael Tinling LLb, Company Secretary
27 March 2009

Directors' Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activity

The Group is principally engaged in the distribution, design, installation and support of computer hardware and software systems. IS Solutions plc is a company incorporated in the United Kingdom under the Companies Act 1985.

Business review

Group profit (pre-tax, AIM transfer costs and intangible amortisation of £99,000 (2007: £30,000)) rose by 25.23% to £551,000 (2007: £440,000), Reported profit before tax increased to £452,000 (2007: £410,000)

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

Dividends

The Directors recommend a final dividend of 0.67p per ordinary share to be paid on 22 May 2009 to ordinary shareholders on the register on 24 April 2009 which, together with the interim dividend of 0.33p paid on 7 November 2008, makes a total of 1.00p for the year (2007: 1.00p).

Capital Structure

Details of the authorised and issued share capital, together with details of the movements in the company's issued share capital during the year are shown in note 19. The company has one class of ordinary shares which carry no right to fixed income. Each share carries the right to one vote at general meetings of the company. The percentage of the issued nominal value of the ordinary shares is 100% of the total issued nominal value of all share capital.

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

Details of employee share schemes are set out in note 23. Shares held by the Employee Benefit Trust abstain from voting.

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

With regard to the appointment and replacement of directors, the company is governed by its Articles of Association, the Combined Code, the Companies Acts and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 10.

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

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

Directors' Report (Continued)

Going Concern

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

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

Principal risks and uncertainties

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

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

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

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

Supplier payment policy

It is the Company's policy to pay all claims from suppliers according to agreed terms of payment upon receipt of a valid invoice which is materially correct. The Company does not follow a Code on standard payment practice. At 31 December 2008 the Company had 32 days (2007: 30 days) of outstanding liabilities to creditors.

Directors and directors' interests

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

BA Clark
PJ Kear
JC West
JL Dodkins
J Lythall
PD English
MLS Tinling
RS McDowell (as of 17 January 2008)

In accordance with the Company's articles of association, JC West and PD English will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election. The Board believes that the non-executive Director, PD English, should be re-appointed as he brings a wealth of IT and public company experience from his background in the venture capital business.

Directors' Report (Continued)

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

	Class of shares	Interest at end of year	Interest at beginning of year or date of appointment
BA Clark	Ordinary 2p	500,000	500,000
JL Dodkins	Ordinary 2p	336,766	336,766
PD English	Ordinary 2p	500,000	500,000
PJ Kear	Ordinary 2p	1,240,752	1,240,752
J Lythall	Ordinary 2p	2,248,960	2,248,960
ML Tinling	Ordinary 2p	260,284	260,284
RS McDowell	Ordinary 2p	2,350,000	2,350,000
JC West	Ordinary 2p	365,167	365,167

Details of share options can be found on page 21.

Substantial holdings

As far as the directors are aware, as at 27 March 2009, the only holdings of 3% or more of the company's issued share capital are the following:

	Number of ordinary shares	%
Pershing Keen Nominees	5,587,583	22.54
Chase Nominees Limited	4,262,370	17.19
John Lythall Esq	2,248,960	9.07
Barclayshare Nominees	1,817,390	7.33
Peter Kear Esq	1,240,752	5.00
Giltspur Nominees Limited	1,231,500	4.97

Acquisition of the company's own shares

Further to the shareholders' resolutions of 15 May 2008 the company purchased 1,349,000 ordinary shares with a nominal value of £26,980, and representing 5.4% of the company's called-up ordinary share capital, for a consideration of £275,991. The reason for the purchase was to reduce the surplus cash, enhance earnings per share, provide shares as part payment of the acquisition of Chapter26 and provide a pool to satisfy future share options or for future acquisitions.

At the end of the year, the directors had authority, under the shareholders' resolutions of 15 May 2008, to purchase through the market 510,475 of the company's shares at a maximum price of 105% of the average middle market quotation for the five business days immediately preceeding the date of purchase and a minimum price of 2p per share. This authority expires on the 14 May 2009.

Directors' Report (Continued)

Employees

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

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

Treasury policy

The Group's operations are funded by cash reserves. The Group has no debt and does not use hedging instruments or trade in derivatives. The policy of the Group is to ensure that all cash balances earn a market rate of interest. Bank relationships are maintained to ensure that sufficient cash and unutilised facilities are available to the Group.

Political and charitable contributions

The Group made no political contributions or charitable donations during the year (2007: £nil)

Disclosure of information to auditors

In the case of each of the persons who are directors of the company at the date when this report was approved:

- so far as each of the directors is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- each of the directors has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Deloitte LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

PJ Kear, Director
Windmill House, 91-93 Windmill Road,
Sunbury-on-Thames, TW16 7EF
27 March 2009

Directors' Remuneration Report

Introduction

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 which introduced new statutory requirements for the disclosure of directors' remuneration in respect of periods ending on or after 31 December 2002. The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the board has applied the Principles of Good Governance relating to directors' remuneration. As required by the Regulations, a resolution to approve the report will be proposed at the Annual General Meeting of the Company at which the financial statements will be approved.

The Act requires the auditors to report to the Company's members on the "auditable part" of the Directors' remuneration report and to state whether in their opinion that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). The report has therefore been divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration committee

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

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

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

Remuneration policy

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

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

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

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

Directors' Remuneration Report (Continued)

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

Basic salary

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

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

Annual bonus payments

The Committee establishes the objectives that must be met for each financial year if a cash bonus is to be paid. In setting appropriate bonus parameters, the Committee takes cognisance of current economic factors and the performance of the company versus its peers. The Bonus scheme for 2009 is set out below. Bonus payments totalling £30,000 were provided for in 2008 (2007: £nil).

Each Director will be paid a bonus of £5,000 if the Company achieves 25% growth in net pre-tax profits (post Directors' bonuses) in the current financial year (2009) and incrementally, up to a ceiling of 100%, a further £1,000 for each additional 5% increase in net pre-tax profits (post Directors' bonuses). The actual award and payment of these bonuses must be signed off by the Remuneration Committee.

Share options

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

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

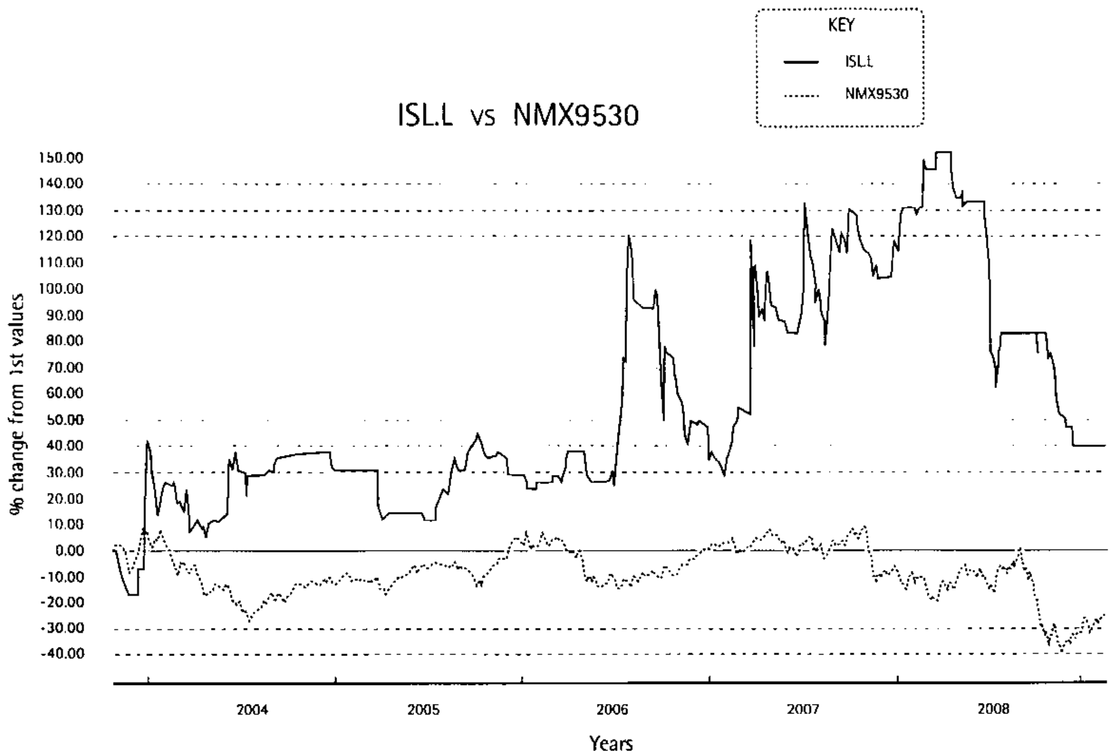
The Company does not operate any long-term incentive schemes other than the share option schemes described above. No significant amendments are proposed to be made to the terms and conditions of any entitlement of a director to share options.

Pension arrangements

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

To the extent that contributions to the company scheme are restricted by Inland Revenue limits, the company contributes 6% of the director's salary providing the director contributes a minimum of 4% of his salary. There are no unfunded pension promises or similar arrangements for directors. There were 4 Directors in the scheme in 2008 (2007: 4).

Directors' Remuneration Report (Continued)



Performance graph

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

Directors' contracts

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

Executive Directors

J Lythall, PJ Kear, JL Dodkins and JC West have directors' service agreements which can be terminated on twelve months notice. These agreements were dated 29 August 1997.

Non Executive Directors

BA Clark MLS Tinling, R McDowell and PD English each have an agreement for 12 months which expires on 7 May 2009. The fees of the non-executive directors are determined and confirmed by the full board excluding (in each case) the non-executive director concerned.

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

Directors' Remuneration Report (Continued)

Audited information

Aggregate directors' remuneration

The total amounts for directors' remuneration were as follows:

	2008	2007
	£000	£000
Emoluments	482	489
Money purchase pension contributions	42	42
Total excluding gains on share options	**524**	**531**
Gains on exercise of share options	14	35
Total	**538**	**566**

Director emoluments

The remuneration of the individual directors is as follows:

	Fees/Basic salary	Pension	Benefits	Annual Bonus	Total 2008	Total 2007
	£000	£000	£000	£000	£000	£000
Executives						
J Lythall	127	13	2	-	142	150
PJ Kear	105	11	4	-	120	126
JL Dodkins	81	9	8	-	98	110
JC West	91	9	2	-	102	110
Non-Executives						
BA Clark	20	-	-	-	20	20
PD English	16	-	-	-	16	9
ML Tinling	13	-	-	-	13	6
RS McDowell	13	-	-	-	13	-
Total	**466**	**42**	**16**	-	**524**	**531**

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

Directors' Renumeration Report (Continued)

Directors share options

Aggregate emoluments disclosed above do not include any amounts for the value of options to acquire ordinary shares in the company granted to or held by the directors. Details of the options exercised during the year are as follows:

Director	Number of Options	Exercise price	Mkt Price at exercise date	Gains on exercise 2008	Gains on exercise 2007
JL Dodkins	70,000	6.0p	26.0p	£14,000	-
PJ Kear	-	-	-	-	£11,200
J Lythall	-	-	-	-	£11,200
JC West	-	-	-	-	£12,250

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

	Number at 1.1.08	Lapsed during year	Granted during year	Exercised during year	Number at 31.12.08	Option price	Exercisable from	Expiry date
JL Dodkins	36,000	36,000	-	-	-	52.5p	30.04.2001	30.04.2008
	70,000	-	-	70,000	-	6.0p	13.11.2005	13.11.2012
	30,000	-	-	-	30,000	12.0p	06.06.2008	06.06.2015
	70,000	-	-		70,000	22.25p	11.11.2010	11.11.2017
PJ Kear	36,000	36,000	-	-	-	52.5p	30.04.2001	30.04.2008
	30,000	-	-	-	30,000	12.0p	06.06.2008	06.06.2015
	70,000	-	-	-	70,000	22.25p	11.11.2010	11.11.2017
JC West	36,000	36,000	-	-	-	52.5p	30.04.2001	30.04.2008
	30,000	-	-	-	30,000	12.0p	06.06.2008	06.06.2015
	70,000	-	-	-	70,000	22.25p	11.11.2010	11.11.2017
J Lythall	30,000	-	-	-	30,000	12.0p	06.06.2008	06.06.2015
	70,000	-	-	-	70,000	22.25p	11.11.2010	11.11.2017

The market price of the shares at 31 December 2008 was 14.75.p (21.50p at 31 December 2007) and the range in the year was 14.25p to 27.00p.

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

Approval

This report was approved by the Board of directors on 27 March 2009 and signed on its behalf by:

John Lythall, Managing Director

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. The directors are required by the IAS Regulation to prepare the group financial statements under IFRSs (IFRSs) as adopted by the European Union and have also elected to prepare the parent company financial statements in accordance with IFRSs as adopted by the European Union. The financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the company's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and presentation of financial statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRSs. However, directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

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

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

Independent Auditors' report to the members of IS Solutions plc

We have audited the group and parent company financial statements (the "financial statements") of IS Solutions plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, the Parent Company Statement of Changes in Equity, the Parent Company Balance Sheet, the Parent Company Cash Flow Statement and the related notes 1 to 24. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman's statement and Managing Director's statement that is cross referred from the Business Review section of the Directors' Report.

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

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

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

Independent Auditors' report to the members of IS Solutions plc

(Continued)

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

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31 December 2008;
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Reading, United Kingdom
27 March 2009

Consolidated income statement for the year ended 31 December 2008

	Notes	2008	2007
	1		*Restated*
		£'000	£'000
Continuing operations			
Revenue	3	**8,854**	**7,894**
Cost of sales		(5,855)	(5,222)
Gross profit		**2,999**	**2,672**
Distribution costs		(1,565)	(1,526)
Administration expenses		(1,177)	(936)
Other operating income	24	92	92
Profit from operations	6	**349**	**302**
Investment revenues	4	103	108
Profit before tax		**452**	**410**
Tax (charge)/credit	8	(22)	50
Profit for the period attributable to equity holders of the parent	22	430	460
Earnings per share	10		
Basic		1.83 p	1.89 p
Diluted		1.82 p	1.86 p

Consolidated statement of changes in equity for the year ended 31 December 2008

		2008	2007
		£'000	£'000
Purchase of own shares		(515)	(70)
Sale of own shares		235	21
Share-based payments		14	2
Total expense recognised directly in equity		**(266)**	**(47)**
Profit for the year		430	460
Dividends paid	9	(238)	(161)
Change in shareholders' equity for the year		**(74)**	**252**
Shareholders' equity at start of year		3,071	2,819
Shareholders' equity at end of year		**2,997**	**3,071**

Consolidated balance sheet as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Non-current assets			
Goodwill	11	603	254
Other intangible assets	12	90	7
Property, plant and equipment	13	141	127
Deferred tax assets	8	99	86
		933	**474**
Current assets			
Trade and other receivables	17	2,070	1,224
Cash and cash equivalents		1,757	2,504
		3,827	**3,728**
Total assets		**4,760**	**4,202**
Current liabilities			
Trade and other payables	18	(1,676)	(1,110)
Tax liabilities		(69)	(20)
		(1,745)	**(1,130)**
Non-current liabilities			
Deferred tax liabilities	8	(18)	(1)
Total liabilities		**(1,763)**	**(1,131)**
Net assets		**2,997**	**3,071**
Equity			
Share capital	19	496	496
Share premium account	20	1,786	1,786
Own shares	21	(280)	(97)
Retained earnings	22	995	886
Attributable to equity holders of the parent		**2,997**	**3,071**

These financial statements were approved by the Board of directors and authorised for issue on 27 March 2009 and were signed on its behalf by

J Lythall, Director

Consolidated cash flow statement for the year ended 31 December 2008

	2008 £'000	2007 £'000
Operating activities		
Profit from operations	349	302
Adjustments for:		
Depreciation of property, plant and equipment	116	114
Gain on disposal of of property, plant and equipment	(1)	(2)
Amortisation of intangible assets	37	30
Impairment of goodwill	25	-
Share-based payments	14	2
Operating cash flows before movements in working capital	**540**	**446**
(Increase)/decrease in debtors	(594)	530
Increase in creditors	379	121
Cash generated by operations	**325**	**1,097**
Income taxes paid	(20)	-
Net cash from operating activities	**305**	**1,097**
Investing activities		
Interest received	74	108
Proceeds of trading investments	(250)	-
Proceeds on sale of trading investments	279	-
Purchase of property, plant and equipment	(109)	(60)
Proceeds on disposal of property, plant and equipment	6	6
Acquisition of subsidiaries	(331)	-
Net cash (used in)/from investing activities	**(331)**	**54**
Financing activities		
Dividends paid	(238)	(161)
Purchase of own shares	(503)	(49)
Net cash used in financing activities	**(741)**	**(210)**
Net (decrease)/increase in cash and cash equivalents	**(747)**	**941**
Cash and cash equivalents at start of year	2,504	1,563
Cash and cash equivalents at end of year	**1,757**	**2,504**

Company statement of changes in equity for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Purchase of own shares		(515)	(70)
Sale of own shares		235	21
Share-based payments		14	2
Total expense recognised directly in equity		**(266)**	**(47)**
Profit for the year		414	466
Dividends paid	9	(238)	(161)
Change in shareholders' equity for the year		**(90)**	**258**
Shareholders equity at start of year		3,016	2,758
Shareholders' equity at end of year		**2,926**	**3,016**

Company balance sheet as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Non-current assets			
Goodwill	11	100	100
Investment in subsidiaries	14	953	235
Property, plant and equipment	13	122	127
Deferred tax assets	8	99	68
		1,274	**530**
Current assets			
Trade and other receivables	17	1,720	1,224
Cash and cash equivalents		1,755	2,504
		3,475	**3,728**
Total Assets		**4,749**	**4,258**
Current liabilities			
Trade and other payables	18	(1,803)	(1,222)
Tax liabilities		(20)	(20)
Total liabilities		**(1,823)**	**(1,242)**
Net assets		**2,926**	**3,016**
Equity			
Share capital	19	496	496
Share premium account	20	1,786	1,786
Own shares	21	(280)	(97)
Retained earnings	22	924	831
Total equity		**2,926**	**3,016**

These financial statements were approved by the Board of directors and authorised for issue on 27 March 2009 and were signed on its behalf by

J Lythall, Director

Company cash flow statement for the year ended 31 December 2008

	2008 £'000	2007 £'000
Operating activities		
Profit from operations	301	310
Adjustments for:		
Depreciation of property, plant and equipment	105	114
Gain on disposal of property, plant and equipment	(1)	(2)
Impairment of investment in subsidiary	25	-
Share-based payments	14	2
Operating cash flows before movements in working capital	444	424
(Increase)/decrease in debtors	(496)	444
Increase in creditors	581	237
Cash generated by operations	**529**	**1,105**
Income tax paid	(20)	-
Net cash from operating activities	**509**	**1,105**
Investing activities		
Interest received	73	108
Purchase of trading investments	(250)	-
Proceeds on disposal of trading investments	279	-
Purchase of property, plant and equipment	(105)	(60)
Proceeds on disposal of property, plant and equipment	6	6
Acquisition of subsidiaries	(520)	-
Net cash (used in)/from investing activities	**(517)**	**54**
Financing activities		
Dividends paid	(238)	(161)
Purchase of own shares	(503)	(49)
Net cash used in financing activities	**(741)**	**(210)**
Net (decrease)/increase in cash and cash equivalents	**(749)**	**949**
Cash and cash equivalents at start of year	2,504	1,555
Cash and cash equivalents at end of year	**1,755**	**2,504**

Notes to the financial statements

1. Significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

Going concern

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

Adoption of new and revised standards

Standards, amendments and interpretations that became effective in 2008 but have no effect on the Group's operations:

IFRIC 11	IFRS2 Group and Treasury Share Transactions
IFRIC 12	Service concession arrangements
IFRCI 13	Customer loyalty programmes
IFRIC 14/IAS 19	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

IFRS 1 (amended)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (amended)	Share-based Payment – Vesting Conditions and Cancellations
IFRS 3 (revised 2008)	Business Combinations
IFRS 8	Operating Segments
IAS 1 (revised 2007)	Presentation of Financial Statements
IAS 23 (revised 2007)	Borrowing Costs
IAS 27 (revised 2008)	Consolidated and Separate Financial Statements
IAS 32 (amended)	Financial instruments: Presentation
AS 39 (amended)/IFRS7 (amended)	Reclassification of Financial Instruments/Reclassification of Financial Assets: Effective Date and Transition
IAS 39 (Amended)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 17	Distributions of Non-cash assets to Owners
IFRIC 18	Transfer of Assets from Customers

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

Basis of consolidation

The group accounts consolidate the accounts of IS Solutions Plc and all its subsidiary undertakings. These accounts are made up to 31 December 2008.

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

All intra-group transactions and balances are eliminated on consolidation.

In accordance with Section 230(4) of the Companies Act 1985 IS Solutions Plc is exempt from the requirement to present its own income statement. The profit of the parent is disclosed in note 22.

Property, plant and equipment

The value of these assets is stated at cost, less accumulated depreciation and any impairment loss.

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

Leasehold improvement	- up to 10 years
Fixtures and equipment	- up to 4 years
Motor vehicles	- 3 to 4 years

Acquisitions

On the acquisition of a business net fair values are attributed to the identifiable assets and liabilities acquired. Where the cost of acquisition exceeds this net fair value, the difference is treated as purchased goodwill and capitalised in the balance sheet in the year of acquisition.

Goodwill

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

Foreign currencies

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

Operating leases

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

Share-based payments

Periodically the Group offers share options (at the prevailing market price) to all employees. The Group has conformed with the requirements of IFRS2 "Share Based Payment" for share options issued after 7 November 2002 and unvested at 1 January 2006. Those options are measured at fair value (using the Black-Scholes model and management's best estimates) and are expensed on a straight-line basis over their vesting period.

Pension costs

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

Notes to the financial statements (Continued)

Research and development

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

Taxation

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

Change in accounting policy and restatement of cost of sales

The change in accounting policy for cost of sales implemented last year has been further refined and the figure for cost of sales in 2007 has therefore been increased by £144,000. A matching decrease in operating costs means that there is no effect on the reported operating profit or shareholders' equity.

Revenue recognition

Products

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

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

Services

Development services

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

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

Whilst the relatively straight-forward nature of the contractual arrangements described above lends itself to a simple revenue recognition model, IS Solutions' management review contracts on a monthly basis in case any adjustments are required.

Support and maintenance services supplied by the Group

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

Vendor Software Maintenance

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

Financial Instruments

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

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

Trade investments comprise the Group's strategic investments in entities that do not qualify as subsidiaries, associates or jointly controlled entities. They are recognised when acquired or disposed of. Fluctuations in their fair value are dealt with through profit and loss.

Trade payables are not interest bearing and are stated at cost.

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

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

Company accounts

The separate financial statements of the Company are presented as required by the Companies Act 1985. As permitted by that act these have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted are the same as those set out above in respect of the Group.

2. Critical accounting judgements and key sources of estimation uncertainty

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

Critical judgements in applying the Group's accounting policies

Goodwill

The ongoing valuation of goodwill for the purposes of determining impairment requires the evaluation of future cash flows from the cash generating units to which the goodwill has been allocated. Note 11 shows the carrying values of the components of goodwill and shows that in one case it was considered necessary to provide for impairment.

3. Revenue

	Group	
Analysis of revenue	**2008**	**2007**
Continuing operations	**£'000**	**£'000**
Sale of goods	4,220	3,259
Rendering of services	4,634	4,635
	8,854	7,894
Other operating income	92	92
Investment income	103	108
	9,049	**8,094**

Notes to the financial statements (Continued)

4. Investment income and other gains and losses

	Group	
	2007	2006
Analysis of investment income	**£'000**	**£'000**
Bank interest received	74	108
Profit on disposal of trade investments	29	-
	103	**108**

IFRS 7 "Financial Instruments: Disclosures" requires that the Group discloses a sensitivity analysis for each type of market risk to which it is exposed as at the reporting date, showing how profit and equity would have been affected by changes in the relevant risk variables. The only risk identified was to interest rate changes. It is estimated that a 1% change in average interest rates, using consistent estimation methods, would result in a change in reported profit before tax of £10,000 (2007: £20,000).

5. Business and geographical segments

For management purposes the Group reports its revenue and gross profit by vendor generated third party sales (Distribution) and sales direct to the Group's own customers (Direct). No allocation of operating costs and other income to these segments is made because the directors consider that any such allocation would be arbitrary.

Business segments 2008	**Direct**	**Distribution**	**Unallocated**	**Total**
Revenue	7,341	1,513	-	8,854
Gross profit	2,905	94	-	2,999
Other income and expense	-	-	(2,569)	(2,569)
Segment result	2,905	94	(2,569)	430
Assets	1,304	545	2,911	4,760
Liabilities	(740)	(440)	(583)	(1,763)
Business segments 2007				
Revenue	6,861	1,033	-	7,894
Gross profit	2,711	105	-	2,816
Other income and expense	-	-	(2,356)	(2,356)
Segment result	2,711	105	(2,356)	460
Assets	1,159	-	3,043	4,202
Liabilities	(612)	(100)	(419)	(1,131)

Geographical segments

The Group operates entirely within the UK.

Notes to the financial statements (Continued)

6. Profit from operations

	2008	2007
Profit from operations has been arrived at after charging/(crediting)	£'000	£'000
Research and development costs	420	400
Net foreign exchange gains	(27)	(9)
Depreciation of property, plant & equipment	116	114
Amortisation of intangible assets	37	30
Impairment of goodwill	25	-
Staff costs (see Note 7)	3,878	3,378
Auditors' remuneration for audit services (Group and Company, the Company fee is not separately quantifiable)	34	46
Auditors' remuneration for tax compliance and advisory services	9	12

7. Staff costs

The average number of employees (including directors)	Group		Company	
during the year was:	2008	2007	2008	2007
Sales	11	10	10	10
Engineering	56	50	50	48
Administration	16	14	15	14
	83	**74**	**75**	**72**
Their aggregate remuneration comprised:	£'000	£'000	£'000	£'000
Salaries	3,296	2,874	2,924	2,802
Social security costs	353	316	316	311
Pension costs	229	188	197	187
	3,878	**3,378**	**3,437**	**3,300**

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

Notes to the financial statements (Continued)

8. Tax

	2008 £'000	2007 £'000
Current tax	42	(20)
Deferred tax	(20)	(70)
UK corporation tax	22	(50)
The charge for the year can be reconciled to the reported profit as follows:		
Profit before tax	452	410
UK corporation tax at 28.5% (2007: 30%)	129	123
Research and development credit	(59)	(60)
Relief for exercising of share options	(14)	(19)
Writing-down allowances in excess of depreciation	(49)	-
Utilisation of tax losses	-	(25)
Amortisation of intangibles	4	9
Impairment of goodwill	8	-
Other non-deductible expenses	8	7
Recognition of deferred tax asset	-	(68)
Other timing differences	2	-
Lower rate relief	(7)	(17)
Tax charge/(credit) as above	22	(50)

Deferred tax asset/(liability)	Intangibles	Tax losses	Timing difference	Total
Group at 1 January 2007	(7)	22	-	15
Recognition of deferred tax asset	-	34	34	68
Credit/(charge) to income statement	6	(4)	-	2
Group at 1 January 2008	(1)	52	34	85
On acquisitions	(24)	-	-	(24)
Credit/(charge) to income statement	7	(52)	65	20
Group at 31 December 2008	**(18)**	-	**99**	**81**
Company at 1 January 2008	-	34	34	68
(Charge)/credit to income statement	-	(34)	65	31
Company at 1 January 2007	-	-	**99**	**99**

9. Dividends

	2008	2007
Amounts recognised as distributions to equity holders	£'000	£'000
Final dividend for the year ended 31 December 2007 of 0.67p (2006: 0.33p)	158	80
Interim dividend for the year ended 31 December 2008 of 0.33p (2007: 0.33p)	80	81
	238	**161**
Proposed final dividend for the year ended 31 December 2008 of 0.67p	157	

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

10. Earnings per share

	2008	2007
Earnings, being the net profit attributable to equity holders of the parent (£'000)	**430**	**460**
Weighted average of ordinary shares in issue	24,793,190	24,793,190
Weighted average of own shares	(1,254,024)	(482,285)
Weighted average for the purpose of basic earnings per share	**23,539,166**	**24,310,905**
Effect of dilutive share options	81,559	361,977
Weighted average for the purpose of diluted earnings per share	**23,620,725**	**24,672,882**

11. Goodwill

	Group		Company	
	2008	2007	2008	2007
Cost of goodwill	£'000	£'000	£'000	£'000
At 1 January	2,356	2,356	2,012	2,012
Additions	374	-	-	-
At 31 December	**2,730**	**2,356**	**2,012**	**2,012**
Accumulated impairment losses				
At 1 January	2,102	2,102	1,912	1,912
Impairment losses for the year	25	-	-	-
At 31 December	**2,127**	**2,102**	**1,912**	**1,912**
Carrying amount at 31 December	**603**	**254**	**100**	**100**
Allocation of goodwill				
AXL customers	100	100	100	100
Candric customers	129	154	-	-
Chapter26 customers	374	-	-	-
At 31 December	**603**	**254**	**100**	**100**

The carrying amount of goodwill represents the balance of the original cost of goodwill attached to the subsidiary companies on acquisition. The Group is required to test this value at least annually for impairment. The still extant customers of each of these subsidiaries (some of whom are now customers of the parent company) continue to form identifiable cash generating units. The directors believe that the customers of AXL and Chapter26 will continue to produce yearly net cash flow comfortably in excess of the attributable goodwill, but that Candric customers' cash flow has diminished to the point where an impairment of £25,000 must be recognised. No growth or discount rate was applied to the calculations.

Notes to the financial statements (Continued)

12. Other intangible assets

	Group	
	2008	2007
Capitalised contracts	**£'000**	**£'000**
At 1 January	60	60
Expired	(60)	-
Additions	120	-
At 31 December	**120**	**60**
Accumulated amortisation		
At 1 January	53	23
Amortisation for the year	37	30
Expired	(60)	-
At 31 December	**30**	**53**
Carrying amount at 31 December	**90**	**7**

The carrying amount of capitalised contracts represents the amortised value of customer contracts acquired with Chapter26 Ltd. The Board considers that the future amortisation costs will be fully absorbed by ongoing revenues from those customers.

13. Property, plant & equipment

Group	Leasehold Improvements	Fixtures & Equipment	Motor Vehicles	**Total £'000**
Cost				
At 1 January 2007	157	222	78	457
Additions	2	30	28	60
Disposals	-	(120)	(19)	(139)
At 1 January 2008	159	132	87	378
Additions	6	75	28	109
Acquisition of subsidiary	-	26	-	26
Disposals	-	(28)	(36)	(64)
At 31 December 2008	**165**	**205**	**79**	**449**
Depreciation				
At 1 January 2007	97	122	53	272
Charge for year	25	71	18	114
Eliminated on disposals	-	(120)	(15)	(135)
At 1 January 2008	122	73	56	251
Charge for year	23	73	20	116
Eliminated on disposals	-	(28)	(31)	(59)
At 31 December 2008	**145**	**118**	**45**	**308**
Carrying amount				
At 31 December 2007	37	59	31	127
At 31 December 2008	**20**	**87**	**34**	**141**

Notes to the financial statements (Continued)

Company	Leasehold Improvements	Fixtures & Equipment	Motor Vehicles	**Total £'000**
Cost				
At 1 January 2007	157	222	78	457
Additions	2	30	28	60
Disposals	-	(120)	(19)	(139)
At 1 January 2008	159	132	87	378
Additions	6	71	28	105
Disposals	-	(28)	(36)	(64)
At 31 December 2008	**165**	**175**	**79**	**419**
Depreciation				
At 1 January 2007	97	122	53	272
Charge for year	25	71	18	114
Eliminated on disposals	-	(120)	(15)	(135)
At 1 January 2008	122	73	56	251
Charge for year	23	62	20	105
Eliminated on disposals	-	(28)	(31)	(59)
At 31 December 2008	**145**	**107**	**45**	**297**
Carrying amount				
At 31 December 2007	37	59	31	127
At 31 December 2008	**20**	**68**	**34**	**122**

14. Subsidiaries

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

The subsidiary companies are valued at £953,000 representing a cost of £1,377,000 less accumulated provisions for impairment of £424,000 (2007: value £235,000, cost £634,000, provisions £399,000).

Notes to the financial statements (Continued)

15. Acquisition of subsidiary

Chapter26 Ltd acquired on 22 July 2008	Book value	Fair value adjustment	Provisional fair value
	£'000	£'000	£'000
Net assets aquired			
Tangible fixed assets	26	-	26
Future value of acquired contracts	-	120	120
Trade and other receivables	252	-	252
Cash and cash equivalents	209	-	209
Trade and other payables	(187)	-	(187)
Tax liability	(27)	-	(27)
Deferred tax liability	-	(24)	(24)
	273	**96**	**369**
Goodwill			374
Total consideration			**743**
Satisfied by:			
Cash			477
Transfer of own shares			223
Directly attributable costs			43
			743
Had the subsidiary been purchased on 1 January 2008 then its contribution to the Group profit would have been			114

16. Investments (Group and Company)

	2008	2007
Trading investments	**£'000**	**£'000**
Fair value at 1 January (based on quoted prices)	-	-
Purchases during year	250	-
Movement in fair value during year	29	-
Disposals during year	(279)	-
Fair value at 31 December	-	-

17. Trade and other receivables

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade receivables	1,788	998	1,463	998
Other debtors	83	65	78	65
Prepayments	199	161	179	161
	2,070	1,224	1,720	1,224

	Group	
Trade receivables	2008	2007
Ageing of past due but not impaired receivables	£'000	£'000
Overdue 1 month	105	453
Overdue 2 months	-	57
	105	510

Trade receivables arise mainly from credit sales. The Board considers that their recoverable value, after considering any credit risk, does not differ materially from their carrying value. In particular those amounts past due are assessed to be fully recoverable and are not considered to be impaired. Balances in foreign currencies at the end of the year totalled £65,000 (2007: £23,000). The average credit period taken on sale of goods and services is 45 days (2007: 45 days).

The Group uses credit reference agencies to determine and monitor the credit limits of new and existing customers. At the end of the year three customers owed a total of £685,000 (2007: £444,000). No other customers owed more than 10% of the outstanding total. No provision for doubtful debts has been made (2007: nil).

18. Trade and other payables

	Group		Company	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Trade payables	857	439	765	439
Owed to subsidiaries	-	-	401	112
Other taxes payable	331	250	260	250
Accruals and deferred income	488	421	377	421
	1,676	1,110	1,803	1,222

Trade payables comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 32 days (2007: 30 days). Their carrying value approximates to their fair value. Balances in foreign currencies at the end of the year totalled £87,000 (2007: £150,000). The Group's policy is to pay creditors in full as and when they become due which for all practical purposes is at latest by the end of the month following the invoice date. There is no liquidity risk since the Group has considerably more than adequate cash balances to satisfy its creditors.

19. Share capital

	2008	2007
	£'000	£'000
Authorised		
37,500,000 ordinary shares of 2p each	750	750
Issued and fully paid up		
24,793,190 ordinary shares of 2p each	496	496

Notes to the financial statements (Continued)

20. Share premium account

	2008 £'000	2007 £'000
Balance at 1 January and 31 December	1,786	1,786

21. Own shares

	2008 £'000	2007 £'000
Balance at 1 January	97	66
Acquired during the year	515	70
Sold during year	(332)	(39)
Balance at 31 December	**280**	**97**
Fair value at 31 December	208	108

22. Retained earnings

	Group		Company	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Balance at 1 January	886	603	831	542
Dividends paid	(238)	(161)	(238)	(161)
Loss on sale of own shares	(97)	(18)	(97)	(18)
Credit to equity for equity-settled share-based payments	14	2	14	2
Net profit for the year	430	460	414	466
Balance at 31 December	**995**	**886**	**924**	**831**

23. Share-based payments

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

	2008		2007	
	Number of share options	Weighted av. price	Number of share options	Weighted av. price
Options outstanding at 1 January	1,922,500	14.30p	1,257,000	14.30p
Granted during the year	-	-	1,115,000	22.25p
Forfeited during the year	(256,500)	39.70p	(44,500)	28.20p
Exercised during the year	(269,000)	6.87p	(405,000)	6.00p
Outstanding at 31 December	1,397,000	19.39p	1,922,500	14.30p
Exercisable at 31 December	372,000	11.52p	260,000	6.00p

The weighted average share price at the exercise date of the exercised shares was 25.6p (2007: 22.1p). The weighted average contractual life of the oustanding options was 8 years (2007: 8 years).

The Group recognised £14,000 of expense related to equity-settled share-based payments in 2008 (2007: £2,000).

Notes to the financial statements (Continued)

24. Operating lease arrangements (Group and Company)

	2008	2007
As lessee		
The future aggregate minimum lease payments due under non-cancellable operating leases are:	£'000	£'000
Due in less than one year	242	242
Due between two and five years	968	968
Due in over five years	323	565
Lease payments recognised as an expense during year	**242**	**242**
As lessor		
The future aggregate minimum lease payments receivable under non-cancellable operating leases are:	£'000	£'000
Due in less than one year	19	92
Due between two and five years	-	19
Due in over five years	-	-
Lease receipts recognised as income during year	92	92

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