



Health Informatics Plc

Avia Health Informatics Plc ("Avia" or "the Company")

Interim Results

2 November 2011

Avia (AIM: AVIA), the developer and provider of clinical decision support systems internationally, announces its interim results for the six months ended 30 September 2011. Comparative figures relate to the six months ended 30 September 2010 unless otherwise stated.

Financial Highlights

- Revenue of £1.0m (2010: £1.0m)
- Gross profit of £141k (2010: £471k)
- Overheads £626k (2010: £726k)
- Operating loss of £485k (2010: £255k)
- Cash outflow £281k (2010: £223k)
- Cash position of £86k (2010: £252k)

Operational Highlights

- Purchase of PathFinderRF IPR
- Order for TeleAssess for Philippine call centre
- Start of Philippine ClinicAssess trial
- New users for .NET product software
- Odyssey FirstAssess sale to UK prisons
- Odyssey for smartphones

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Chairman's Statement

The anticipated improvement in the first half of the current year did not materialise. Expectations of strong growth in the UK, especially in the Prison and GP sectors, was well below management's expectations. This has been mainly due to cost constraints within the UK healthcare market.

It became clear in August 2011 that, due to the lack of anticipated growth in the Company's business, the Company's cash reserves were compromised. This resulted in an expected shortfall in cash of £200k in the near term and the Directors took the decision to request the temporary suspension of Avia's shares from trading on AIM on 5 August, 2011. Subsequently the Company issued an update on 26 August 2011 (repeated on 30 August 2011), confirming receipt of short term funding support from the directors and staff, but with the acknowledgement that the Company needed, and the directors would be seeking, to attract longer term funding of c. £1 million. Taking into account recent trading and the nature of the markets in which the Group operates, the directors believe that the appropriate funding need is c. £1.5 million.

Operationally the Company has been temporarily restructured so as to focus on short term sales success, with all the support staff focusing on sales and weekly updates of sales activity being provided to the Board. The Directors have also reviewed the cost base assumptions and have made significant savings in expenditure planned for the future.

The Company has undertaken a root and branch review starting with a full revised sales forecast by product, including the newest product, PathFinderRF. PathFinderRF is innovative on-line referral decision support and clinical communication system that enables Commissioning Groups and other Primary Care Organisations to manage referral decision-making and the communication of clinical information from general practice to specialist and community services.

Financial Report

The consolidated results for the six months period to 30th September show revenue of £1,028k (previous period 2010: £987k).

The gross profit margin at 14% (previous period 2010: 48%) has dropped considerably. This is due to increased international sales costs of £125k and an increase in UK sales, development and clinical costs of £134k as the group geared up for international expansion. Product development costs continue to be capitalised, but only £35k was capitalised in the period, some £74k less than the same period last year, as more developer time was allocated to product support activities. Accordingly, a higher proportion of developer salaries were allocated to direct costs, with a negative effect on the gross profit margin.

We have, however, reduced our administrative expenses by £100k, helped by the consolidation of our group administrative function at Avia's head office.

The loss per share for the period was 7.57 pence per share (previous year 2010: was 5.00 pence per share). The cash balance in the group stood at £86k at the end of the period, with



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no debt. The reported figure is modestly lower than stated in the preliminary results release, which was based on the latest available information at the time

Current Trading, Going Concern and Outlook

Since 4 August, 2011, the Directors have been holding weekly board meetings to consider current trading and to monitor the cash position closely.

The Directors have prepared forecast information for the period to September 2012. This now forms the main platform for the directors to make their decision on the going concern comments below. The forecasts indicate that the Group's forecast revenues are expected to exceed costs, due mainly to 1) a reduction in development costs, and 2) the introduction and sale of new products into existing and new markets.

The achievement of forecasts is largely dependent upon development costs not exceeding budget, and the successful launch of new products. If new products are not as successful as forecast, the Directors believe that development and operational costs could be saved, so as to enable the Group to continue as a going concern.

To fully secure and underpin the development of the business the directors believe that at least £1.5m net of additional funding is required in the near future. This investment may come by way of a number of financial instruments or third party partnerships. The directors are actively pursuing all possible routes that may be available to it.

The challenging market conditions experienced in our core UK markets over the period are continuing through into the current year, restraining UK growth. However, we anticipate growth from new emerging markets both in the GP and Care Home sector within the UK during the second half of the current year. The major investment that the Company has continued to make, both in clinical and software development, is targeted at innovative cost-effective product solutions. This means that we are well-placed to capitalise on new opportunities as they present themselves in the future.

The Board is encouraged by the strength of interest shown from international markets in our core technology software which can now be deployed on touch-screen PCs, laptops and mobile tablet devices which can be operated in many instances by lay personnel. As new applications for our clinical technology continue to emerge, it is anticipated that further solutions will be capable of being delivered on new generations of mobile platforms (smartphones on the 3G platform).

The Board it continues to believe that the correct strategy is to focus in the current financial year on shifting the Company's dependence away from the UK market and placing greater emphasis on major international growth markets, specifically the emerging markets in the Far East, the Americas and elsewhere. Our product development resource continues to be focused on meeting the customer needs in these markets. The major effort during the year ahead will be in developing a cost-effective "route to market" strategy of working with value-added partners, resellers and distributors into these new developing market areas.



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Unaudited Financial Results for the Six Month Period Ended 30 September 2011

The reader is reminded that the preliminary financial statements in respect of the financial year ended (FYE) 31 March 2011 are unaudited and, as such, may be subject to material change. Both the FYE 31 March 2011 and the interim results for the first half of the current year are prepared on the going concern basis, which assumes the Group will have sufficient resources to enable it to continue trading for the foreseeable future. In the event that the Group secures less than the £1.5m net of additional funding referred to above, it is highly likely that the Group's audited financial statements for the year ended 31 March 2011 would have a material qualification in relation to going concern.

Profit and Loss

Consolidated Statement of Total Comprehensive Income for the period ended 30 September 2011

	Unaudited Period ended 30 September 2011 £	Unaudited Period ended 30 September 2010 £	Unaudited Year ended 31 March 2011 £
Revenue	1,025,479	987,485	2,097,504
Cost of sales	(884,100)	(516,878)	(1,230,315)
Gross Profit	141,379	470,607	867,189
Administrative Expenses	(626,261)	(725,937)	(1,407,408)
Operating Loss	(484,882)	(255,330)	(540,219)
Finance Income	-	-	241
Loss before income tax	(484,882)	(255,330)	(539,978)
Income Tax	-	75,255	(107,622)
Loss for the period and total comprehensive income	(484,882)	(180,075)	(647,600)
Loss per share expressed in pence per share			
Basic and diluted	(7.57)	(5.00)	(12.25)



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Balance Sheet

Consolidated Statement of Financial Position

At 30 September 2011

	Unaudited	Unaudited	Unaudited
	As at 30 September 2011	As at 30 September 2010	As at 31 March 2010
	£	£	£
Assets			
Non-Current Assets			
Intangible Assets	574,452	512,419	539,124
Property, Plant and Equipment	44,256	39,636	43,787
Deferred Tax	-	182,877	-
	<hr/> 618,708	<hr/> 734,932	<hr/> 582,911
Current Assets			
Trade and other receivables	340,050	184,588	642,532
Cash and cash equivalents	85,654	251,884	366,423
	<hr/> 425,704	<hr/> 436,472	<hr/> 1,008,955
Liabilities			
Current Liabilities			
Trade and other payables	463,016	210,767	348,378
Deferred Income	289,636	224,956	466,846
	<hr/> 752,652	<hr/> 435,723	<hr/> 815,224
Net Current Assets/(Liabilities)	<hr/> (326,948)	<hr/> 749	<hr/> 193,731
Net Assets/(Liabilities)	<hr/> 291,760	<hr/> 735,681	<hr/> 776,642
Shareholders' Equity			
Called Up Share Capital	124,185	118,607	124,185
Share Premium	2,069,837	1,566,929	2,069,837
Reverse Acquisition Reserve	(1,795,277)	(1,795,277)	(1,795,277)
Merger Reserve	1,488,489	1,488,489	1,488,489
Retained Earnings	(1,595,474)	(643,067)	(1,110,592)
	<hr/> 291,760	<hr/> 735,681	<hr/> 776,642
Total Equity	<hr/> 291,760	<hr/> 735,681	<hr/> 776,642



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Cashflow

**Consolidated Statement of Cash Flow
For the Period ended 30 September 2011**

	Unaudited	Unaudited	Unaudited
	Period ended	Period ended	Year
	30	30	ended
	September	September	31 March
	2011	2010	2010
	£	£	£
Cash Flows from Operating Activities			
Cash absorbed by operations	(234,088)	(304,316)	(599,819)
Net Cash used in operating activities	<u>(234,088)</u>	<u>(304,316)</u>	<u>(599,819)</u>
Cash flows from investing activities			
Purchase of intangible assets	(35,328)	(109,477)	(184,664)
Purchase of property, plant and equipment	(11,353)	514	(22,984)
Interest received	-	-	241
Net cash absorbed by investing activities	<u>(46,681)</u>	<u>(108,963)</u>	<u>(207,407)</u>
Cash flows from financing activities			
Proceeds from issue of share capital	-	190,000	698,486
Net cash generated from financing activities	<u>-</u>	<u>190,000</u>	<u>698,486</u>
Increase/(decrease) in cash and cash equivalents	<u>(280,769)</u>	<u>(223,279)</u>	<u>(108,740)</u>
Cash and cash equivalents at beginning of period	366,423	475,163	475,163
Cash and cash equivalents at end of period	<u>85,654</u>	<u>251,884</u>	<u>366,423</u>

Note:

1) Reconciliation of loss before income tax to cash generated from operations

Loss before income tax	(484,882)	(255,330)	(539,978)
Depreciation Charge	10,884	(2,050)	65,779
Finance Income	-	-	(241)
	<u>(473,998)</u>	<u>(257,380)</u>	<u>(474,440)</u>
Decrease/(increase) in trade and other receivables	302,482	389,142	(68,802)
(Decrease)/Increase in trade, other payables and deferred income	<u>(62,572)</u>	<u>(436,078)</u>	<u>(56,577)</u>
	<u>(234,088)</u>	<u>(304,316)</u>	<u>(599,819)</u>



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Notes to Interim Report

1. Interim report

This report was approved by the directors on 1 November 2011.

The information relating to the six month periods to 30 September 2011 and 30 September 2010 is unaudited. The reader's attention is drawn to the text above under the heading beginning "Unaudited Financial Results".

The information relating to the year ended 31 March 2011 is extracted from the unaudited preliminary accounts of the Company which were released on 24 October 2011.

2. Accounting policies

Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

Basis of consolidation and reverse acquisition

On 16 November 2009 following the admission of its shares to trading on AIM, a market operated by the London Stock Exchange, the Company became the legal parent of Plain Healthcare Limited.

The combination has been accounted for as a reverse acquisition as if Plain Healthcare Limited acquired Avia Health Informatics plc. Although these Group financial statements have been issued in the name of the legal parent, the Group's activity is in substance a continuation of that of the legal subsidiary, Plain Healthcare Limited, because after the transaction the former owners of Plain Healthcare Limited gained control of the Group and of the legal parent. The following accounting treatment has been applied in respect of the reverse acquisition:

- a) the assets and liabilities of the legal subsidiary are recognised and measured in the Group financial statements at the pre-combination carrying amounts;
- b) the retained losses and other equity balances recognised in the Group financial statements to the date of the reverse acquisition reflect the retained loss and other equity balances of Plain Healthcare Limited immediately before the reverse acquisition, and its results for the period from 1 April 2009 to the date of the reverse acquisition. However, the equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, including the equity instruments issued under the share for share exchange to effect the business combination on 16 November 2009. The effect of using the equity structure of the legal parent gives rise to the reverse acquisition reserve;
- c) comparative amounts presented in the Group financial statements are those reported in the financial statements of the legal subsidiary, Plain Healthcare Limited, for the period ended 31 March 2009; and
- d) no goodwill or fair value adjustments are reflected in the consolidated financial statements because the parent company had not traded prior to the acquisition and did not meet the



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definition of a business in accordance with IFRS3. A business combination as defined by this standard was not therefore considered to have taken place. All differences arising on consolidation are hence taken to the reverse acquisition reserve.

Revenue recognition

The Group sells rights to use its software products under an inclusive licence and maintenance agreement. The fee received from the customer entitles the user to use the software for a limited period of time (typically one year) together with office hours software support and maintenance and ongoing updates to the technical content of the software and any upgrades made to the software functionality. An additional fee is rendered to those customers requiring out of office hours support services.

The Group estimates the value of software sales attributable to ongoing support and upgrades by calculating the direct costs of providing these services and adding a reasonable profit margin of 25%. This proportion of the fee received from the customer is recognised on a straight line basis over the period covered by the invoice to the customer with appropriate amounts being recognised as deferred income. The balance of the fee received is recognised immediately in income. Fees generated for separate out of hours support contracts are recognised on a straight line basis over the period covered by the amounts invoiced to the customer.

Intangible assets - Research and development

The Group has incurred substantial sums in developing and upgrading the Group's products in the period since incorporation and over the period covered by this financial information. One of the criteria for the recognition of development expenditure as an asset is that it must be possible to measure development costs reliably.

In common with many companies of a similar size and which have previously applied UK Generally Accepted Accounting Practice, all development costs incurred up to 31 December 2008 were charged as an expense against profit because the Group had not maintained records which would enable it to retrospectively measure, on a reliable basis, those costs relating to development expenditure, which might otherwise have met the criteria for recognition as an intangible asset in accordance with International Accounting Standard 18.

Since 1 January 2009 the Group has maintained records which identify costs attributable to individual development projects. Costs are capitalised as intangible assets when they meet the criteria specified below.

Development activities involve a plan or design for the production of new or substantially improved computer software. Development expenditure is capitalised only if development costs can be measured reliably, the software programme is technically and commercially feasible, future economic benefits are probable and the Group intends to have sufficient resources to complete the development and to use, lease or sell the asset. The expenditure capitalised includes only the cost of gross direct labour costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, or internally generated goodwill and brands, is recognised in profit or loss as incurred.



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Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Expenditure is accounted for over the period it is anticipated that revenues will be generated from the products produced. This is estimated to be five years from the date the product is complete and available for sale.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered any impairment loss. If any such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment is recognised in equity.

Taxation

The tax expense as a charge or credit to profit or loss represents the sum of the tax currently payable and deferred tax. Tax is recognised to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income.

Current tax is based on taxable profit for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary



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differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it related to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

3. Earnings per share

The earnings per share for the six months ended 30 September 2011 have been calculated based on the profit on ordinary activities after taxation by the weighted average number of shares in issue during the period. As there are no dilutive factors, earnings per share is equivalent to the basis loss per share.

4. Segmental Information

A segment is a distinguishable component of the Group that is engaged in providing services in a particular economic environment which have different potentials for future development. The Group operates in only one segment and though there is export revenue this is all within Europe and the Company classifies its operations as a single segment.

5. Statement of Compliance

The financial information set out above does not constitute the Company's statutory report and accounts for the year ended 31 March 2011. Statutory Accounts for 2010 have been delivered to the registrar of companies. The auditor's report in respect of the 2010 accounts was unqualified and did not include any reference to matters to which the auditor drew attention by way of emphasis of matter or contain a statement under section 489(2) or 498(3) of the Companies Act 2006. The results for the year ended 31 March 2011 are unaudited.